Assignment 2

Due on 2019-09-21, 22:00 GMT

The due date for submitting this assignment two pages.

As per our normal, you must not submit this assignment.

1. On a futures exchange, one futures contract is traded when both the long and short parties are closing out existing positions. The resultant change in the open interest: 1 point

(a) No change

(b) Decreases by one

(c) Increases by one

(d) The answer is incorrect.

Assessed Answer: (c) Increases by one

2. Which of the following is true? 1 point

(a) The market hedge ratio is the slope of the best-fit line when the spot price (on the x-axis) is regressed against the futures price (on the y-axis).

(b) The optimal hedge ratio is the slope of the best-fit line when the futures price (on the y-axis) is regressed against the spot price (on the x-axis).

(c) The optimal hedge ratio is the slope of the best-fit line when the change in the spot price (on the x-axis) is regressed against the change in the futures price (on the y-axis).

(d) The answer is incorrect.

Assessed Answer: (c) The optimal hedge ratio is the slope of the best-fit line when the change in the spot price (on the x-axis) is regressed against the change in the futures price (on the y-axis).

3. The beta is a given amount of time to define the spot price versus futures price at that instant. If the basis strength unexpectedly, which of the following is true? 1 point

(a) The spot futures price increases.

(b) The short futures position increases.

(c) The short futures position decreases.

(d) The long futures position changes, and price increases and decreases at the same time.

No, the answer is incorrect.

Assessed Answer: (b) The short futures position increases.

4. Consider the following data:

<table>
<thead>
<tr>
<th>Date</th>
<th>Price of commodity</th>
<th>Percentage change in price per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.00</td>
<td>1.000</td>
<td>0.1%</td>
</tr>
<tr>
<td>13.00</td>
<td>1.001</td>
<td>0.1%</td>
</tr>
<tr>
<td>14.00</td>
<td>1.002</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

No, the answer is incorrect.

Assessed Answer: Corrected

5. On March 1, the price of an commodity is RM 10.00 and the December futures price is RM 10.50. On November 1, the same spot price is RM 10.00 and the December futures price is RM 10.50. A trader of 10 contracts on March 1 hedged the price of 1 unit on November 1.

(a) Yes, the answer is incorrect. 1 point

(b) No, the answer is incorrect. 1 point

(c) Adjusted Answer: Yes

(d) Adjusted Answer: No

Assessed Answer: Yes

6. At the end of one of a clearing house member's long 100 contracts, and the settlement price is RM 10.00. The original margin is RM 10.00. The member is to deliver 100 bar on the date, the member becomes responsible for clearing, and the clearing house returns RM 1000. The settlement price is at the end of this day RM 10.50. The amount that the member has to add to margin account with the exchange clearing house is RM 500.

(a) Yes, the answer is incorrect.

(b) No, the answer is incorrect.

(c) Adjusted Answer: Yes

(d) Adjusted Answer: No

Assessed Answer: Yes

7. You sell one December silver futures contract when the future price is RM 25.00 per kg. Each contract is on 50 kg of silver. The initial margin per contract is RM 2500. The maintenance margin on contract is RM 2000. During the next day the futures price rises to RM 26.00 per kg. The balance of your margin account at the end of the next day (in RM is): 1 point

(a) 2,000

(b) 2,500

(c) 2,000

(d) 1,500

No, the answer is incorrect.

Assessed Answer: (a) 2,000

8. You are a dealer in silver futures in a short futures position on a silver contract. You decide to sell 10 silver contracts at RM 22.50 per kg. The contract size of the contract is 5.250 kg. The initial margin per contract is RM 2500 and margin requirement is RM 2000 per contract. The change in the futures prices that will lead to a margin call is: 1 point

(a) 3,500

(b) 3,000

(c) 2,500

(d) 2,000

No, the answer is incorrect.

Assessed Answer: (b) 3,000

9. A company takes a long position on 1st September 2018 in six futures contracts on wheat with a maturity of 1st March 2019. One futures contract - 1 point

(a) positions deliver 40,000 kg of wheat. It increases the position on 1st March 2019 to 40,000. The futures price per contract on 1st September is RM 1,200 while that on 1st March 2019 is RM 1,300. The company's total profit/loss on the sale of futures (in RM is): 1 point

(a) RM 24

(b) RM 28

(c) RM 20

(d) RM 22

No, the answer is incorrect.

Assessed Answer: (b) RM 28

10. A company takes a long position on 1st September 2018 in six futures contracts on wheat with a maturity of 1st March 2019. One futures contract - 1 point

(a) positions deliver 40,000 kg of wheat. It decreases the position on 1st March 2019 to 40,000. The futures price per contract on 1st September is RM 1,200 while that on 1st March 2019 is RM 1,300. The company's total profit/loss on the sale of futures (in RM is): 1 point

(a) RM 24

(b) RM 28

(c) RM 20

(d) RM 22

No, the answer is incorrect.

Assessed Answer: (b) RM 28