M.COM DEGREE (CSS) EXAMINATION
FOURTH SEMESTER – FACULTY OF COMMERCE (Private Registration)
MULTIPLE CHOICE QUESTIONS
CM800401 – DERIVATIVES AND RISK MANAGEMENT
(FINANCE AND TAXATION)

1. Variance - covariance method is also known as _____ method.
   a) Historical VaR method
   b) Parametric method
   c) Monte Carlo method
   d) Marginal VaR method
2. Use(s) of VaR:
   a) Help in risk management
   b) Applicable to all assets
   c) Helps in comparison
   d) Both
3. Which one of the following is a limitation of VaR?
   a) Difficulty in calculation for large portfolios
   b) Additive
   c) VaR can lead to same results
   d) Period of low volatility
4. Monte Carlo simulation method is similar to which method?
   a) Variance – covariance method
   b) Historical simulation method
   c) Parametric method
   d) None of these
5. Which of the following is the method/s of VaR computation?
   a) The variance- covariance method
   b) Monte Carlo simulation method
   c) Both
   d) None of these
6. Which one of the following is the correct procedure of Monte Carlo VaR model?
   a) Generate randomly simulated prices
   b) Calculate daily return series
   c) Estimate the VaR
   d) a), b) & c)

7. Which risk occurs due to the unpredictability of the creditworthiness of customers?
   a) Equity risk
   b) Interest rate risk
   c) Credit risk
   d) Market risk
8. Which risk arises because the future interest rates are not known?
   a) Currency risk
   b) Financial risk
   c) Portfolio risk
   d) Interest rate risk
9. Which of the following risk arises due to fluctuations in foreign exchange rate?
   a) Credit risk
   b) Currency risk
   c) Commodity price risk
   d) Interest rate risk
10. By hedging Portfolio a bank manager
    a) Reduces interest rate risk
    b) Increases exchange rate risk
    c) Increases reinvestment risk
    d) Increase the probability of gains
11. In which situation where the interest rate differentials and forward rate differentials are in equilibrium.
    a) Interest Rate Parity Theory
    b) Covered Interest Rate Parity
    c) Uncovered Interest Rate Parity
    d) None of these
12. Which theory permits to take risk free profit using arbitrage?
    a) Covered Interest Rate Parity
    b) Uncovered Interest Rate Parity
    c) Expectations Theory
    d) All of the above
13. Disparity between interest rate differential and forward rate differential will lead to?
    a) Covered Interest Arbitrage
    b) Uncovered Interest Arbitrage
    c) Expectations Theory
    d) None of these

14. Which theory states that the forward exchange rate depends on traders / forex dealers' expectation of what the future spot rate will be?
    a) Interest Rate Parity Theory
    b) Covered Interest Rate Parity
    c) Expectations Theory
    d) Uncovered Interest Rate Parity
15. In which type of forward contract, where the parties to the contract have to deliver the currency or take delivery on the fixed settlement date?
    a) Option Forward Contract
    b) Fixed Forward Contract
    c) Futures contract
    d) Options contract
16. Which is a Forward foreign exchange contract with an option to decide the time of settlement of the contract obligations?
    a) Option Forward Contract
    b) Fixed Forward Contract
    c) Options
    d) Futures
17. Covering operations are opposite operations to offset the risk in the currency forwards transactions and include some strategies. Among the following, which is not a strategy for offsetting the risk?
    a) Spot Sale or Purchase
    b) Forward Sale or Purchase
    c) Both a and b
    d) None of the above
18. Which of the following is a reason to hedge a portfolio?
    a) To increase the probability of gains.
    b) To limit exposure to risk.
    c) To profit from capital gains when interest rates fall.
    d) Both (a) and (c) of the above.
19. Hedging risk for a long position is accomplished by
    a) taking another long position.
    b) taking a short position.
    c) taking additional long and short positions in equal amounts.
    d) taking a neutral position.

20. Hedging risk for a short position is accomplished by

a) taking a long position.
b) taking another short position.
c) taking additional long and short positions in equal amounts.
d) taking a neutral position.

21. What is a payer swaption?

a) It is an option that gives the owner the right to enter into a swap where they pay fixed interest rates and receive the floating interest rates.
b) It gives the right to enter into a swap where they will receive fixed interest rates and pay the floating interest rates.
c) It is a combination of a receiver and payer option on the same underlying swap.
d) None of the above

22. Swaps can be settled through :

a) Physical settlement
b) Cash settlement
c) Physical or cash settlement
d) Both physical and cash settlement

23. Saddle means:

a) It is an option that gives the owner the right to enter into a swap where they pay fixed interest rates and receive the floating interest rates.
b) It gives the right to enter into swap where they will receive fixed interest rates and pay the floating interest rates.
c) It is a combination of a receiver and payer option on the same underlying swaps.
d) None of the above

24. Which among the following is not a derivative ?

a) Swaps
b) Futures
c) Bonds
d) forward contracts

25. Financial derivatives include:

a) Stocks
b) Pepper
c) Bullion
d) Forward contracts

26. Which of the following is a reason to hedge a portfolio?

a) To increase the probability of gains.
b) To limit exposure to risk.
c) To profit from capital gains when interest rates fall.
d) All of the above.

27. Hedging risk for a short position is accomplished by
    a) taking a long position.
    b) taking another short position.
    c) taking additional long and short positions in equal amounts.
    d) taking a neutral position.
28. In India derivative markets are regulated by:
    a) RBI
    b) SEBI
    c) Both RBI and SEBI
    d) Only RBI
29. Future contracts are regularly traded on:
    a) hicago Board of Trade
    b) New York Stock Exchange
    c) American Stock Exchange
    d) None of these
30. On the basis of trade terms derivative can be classified as:
    a) OTC
    b) ET
    c) Both a and b
    d) Only a
31. The benefit of derivatives includes:
    a) Low cost
    b) Insurance against risk
    c) Both a and b
    d) Neither a nor b
32. Hedging risk for a long position is accomplished by
    a) taking another long position.
    b) taking a short position.
    c) taking additional long and short positions in equal amounts.
    d) taking a neutral position
33. The first modern organised futures exchange was established in:
    a) 1948
    b) 1848
    c) 1867
    d) 1962
34. Traders are required to deposit a fraction of the value of their outstanding position, while trading in derivatives called …..
    a) Margin trading
    b) Position trading
    c) Spread trading
    d) Exchange trading
35. Currency futures are traded in Indian markets on …. Currencies.
    a) US Dollars
    b) Euro
    c) Yen
    d) Both a and b

36. In the ……method the actual historical fluctuation in market price during some sample period is applied to the current price to arrive at a different price scenario for the future.
   a) Historical method
   b) The variance covariance method
   c) Monte Carlo simulation
   d) Parity method
37. ……..prefer investment with low risk and provided assured return.
   a) Risk averse
   b) Risk seekers
   c) Risk neutral
   d) All above
38. …..is the expected loss from an adverse market movement with a specified probability over a period of time.
   a) VaR
   b) Monte Carlo Simulation
   c) The variance covariance
   d) Mean variance
39. …..are willing to take more risk for high returns.
   a) Risk averse
   b) Risk seekers
   c) Risk neutral
   d) All of them
40. ….is inevitable and inherent in every business transaction and decision.
   a) Profit
   b) Risk
   c) Investment
   d) Gain
41. …..is the process of quantifying risk in order to understand the nature, gravity of risk.
   a) VaR
   b) Measurement of Risk
   c) Historical Simulation
   d) Covariance
42. Which is the variable of VAR Statistic:
   a) Time period
   b) Profit
   c) Risk
   d) Investment
43. A contract that requires the investor to buy securities on a future date is called a
   a) short contract.
   b) long contract.
   c) hedge.
   d) cross.
44. The advantage of forward contracts over futures contracts is that they
   a) are standardized.
   b) have lower default risk.
   c) are more flexible.
   d) both (a) and (b) are true.

45. …. Method is also known as historical simulation.
   a) VaR
   b) Historical method
   c) The variance covariance
   d) Parametric
46. Futures contracts are regularly traded on the
   a) Chicago Board of Trade.
   b) New York Stock Exchange.
   c) American Stock Exchange.
   d) Chicago Board of Options Exchange
47. A put option gives the seller
   a) the right to sell the underlying security.
   b) the obligation to sell the underlying security.
   c) the right to buy the underlying security.
   (d) the obligation to buy the underlying security
48. An option that can be exercised at any time up to maturity is called a(n)
   a) swap.
   b) stock option.
   c) European option.
   d) American option..
49. The price specified on an option that the holder can buy or sell the underlying asset is called the
   a) premium.
   b) call.
   c) strike price.
   d) put.
50. Which of the following features of futures contracts were not designed to increase liquidity?
   a) Standardized contracts
   b) Traded up until maturity
   c) Not tied to one specific type of bond
   d) Can be closed with off setting trade
51. Futures differ from forwards because they are
   a) used to hedge portfolios.
   b) used to hedge individual securities.
   c) used in both financial and foreign exchange markets.
   d) a standardized contract.
52. Which is reflected in the difference in value of cash today and at a later point of time?
   a) Interest Rate.
   b) Exchange Rate.
   c) Time value of Money.
   d) Discount rate
53. Which formula is used to calculate the continuous compounding of interest?
   a) T=A(1+r)^n
   b) T=Ae^rn
   c) T=FV/(1+r)^n
   d) none of the above equation

54. Which formula is used to calculate the present value of money?
    a) $P=A(1+r)^n$
    b) $P=Ae^rn$
    c) $P=FV/(1+r)^n$
    d) None of the above equation
55. In present value technique what is applied to find out the present value of the future sum to be received?
    a) Discount Rate.
    b) Interest Rate.
    c) Exchange Rate.
    d) Coupon rate
56. Currency futures are used to:
    a) Dematerialisation
    b) Hedging currency risk
    c) Maximise the risk
    d) Minimise the risk
57. Currency futures are:
    a) Systematic contract
    b) Standardised contract
    c) Unsystematic contract
    d) Regular contract
58. Currency futures offers:
    a) Low leverage with high margin
    b) High leverage with low margin requirement
    c) None of these
    d) Both a and b
59. Exchange traded currency futures are:
    a) Ineffective risk management tool
    b) Effective management tool
    c) Non management tool
    d) Security management tool
60. Hedging means:
    a) Maximise risk
    b) To minimise risk
    c) Speculation
    d) Optimise risk
61. Importer require foreign currency to make:
    a) Receipt from exporter
    b) Payment to the exporter
    c) Payment not done
    d) Payment from the exporter
62. Maturity date between intra currency spread:
    a) 2 months
    b) 1 month
    c) 5 months
    d) 3 months

63. Speculator make profit from:
   a) Long term gain
   b) Short term gains
   c) Both of these
   d) Only a
64. Forward pricing is based on ....
   a) Price + interest rate of underlying asset
   b) Future price of underlying asset
   c) Spot price of underlying asset
   d) Both a and b
65. Principle of arbitrage links the relationship between.........
   a) Spot price and forward prices.
   b) Forward price and interest rate
   c) Spot price and interest rate
   d) Both b and c
66. Assumption on forward pricing is that there is :
   a) No transaction cost
   b) High rate of transaction cost
   c) Comparatively less transaction cost
   d) Moderate transaction cost
67. Arbitrage free pricing is given in the form of relationship as;
   a) Fo =So e^rT
   b) Fo =So e^r+T
   c) Fo =So e^r-T
   d) None of the above equation
68. In the forward contract,the seller is ....
   a) Party in short position
   b) Party in long position
   c) A third party
   d) All the above
69. In the forward contract,the buyer is ....
   a) Party in short position
   b) Party in long position
   c) A third party
   d) All of them
70. Cash settlement is the method of settling the contract by ....
   a) Paying cash without the actual delivery of underlying asset
   b) Not paying cash without the actual delivery of underlying asset
   c) Paying cash with the actual delivery of underlying asset
   d) Receiving cash with the actual delivery of underlying asset
71. What is the cash position?
   a) The difference between the spot price of the asset on the settlement date and the agreed upon price as dictated by the forward contract.
   b) The difference between the spot price of the asset on the settlement date and the interest rate that is added with spot price.
   c) The difference between the forward price added with interest rate on a date that is suitable to the seller that is not entered in the contract.
   d) None of the above

72. The swaps may be arranged by the parties directly or with the help of a financial intermediary called:
    a) Swap dealer
    b) Swap party
    c) Swap owner
    d) None of these
73. The intermediary charges a fee from the parties to swap agreement called:
    a) Interest
    b) Spread
    c) Capital
    d) Commission
74. If the interest rate swap agreements are entered into between counterparties directly without the help of financial intermediary called:
    a) Indirect interest rate swaps
    b) Direct interest rate swaps
    c) Both
    d) None of the above
75. Swaps which are used for reduce the cost of borrowing and used to hedge existing Liabilities:
    a) Liability swap
    b) Asset swap
    c) currency swap
    d) commodity swap
76. Swaps which are used for swapping interest income against any fall in the income due to interest rate variation:
    a) Asset swaps
    b) Liability swaps
    c) Currency swap
    d) Financial swap
77. It is a derivative contract to exchange one currency with another:
    a) Currency swap
    b) Asset swap
    c) Liability swap
    d) Financial swap
78. Swap facilitator is also called:
    a) Swap broker
    b) Swap speculator
    c) Hedger
    d) financer
79. Swap provide a… … … hedging which is not possible through other instrument:
    a) Long term
    b) Short term
    c) Medium term
    d) No time limit
80. What are the standardised derivatives contracts in the derivatives market?
    a) Futures & Options
    b) Forwards & Options
    c) Forwards & Futures
    d) Swaps & Options

81. Who are the participants/ traders in the derivatives market?
    a) Hedgers
    b) Speculators
    c) Arbitrageurs
    d) All
82. Scalpers, day traders & position traders are the different classification of ………..
    a) Arbitrageurs
    b) Speculators
    c) Hedgers
    d) None above
83. Derivative exchanges act as …….. to the derivatives contract.
    a) Counterparty
    b) Interdealer
    c) Arbitrageur
    d) Hedger
84. MCX, NMCE & NCDEX are the ………. in India.
    a) Financial derivatives market
    b) Commodity derivatives market
    c) Asset derivatives market
    d) Both a and c
85. SEBI appointed a ………. committee in 1996 to develop an appropriate regulatory framework for derivatives trading in India.
    a) J.C. Verma committee
    b) Kabra Committee
    c) Dr. L.C.Gupta committee
    d) None of the above
86. Trading on Single stock futures began on NSE & BSE in …..
    a) 2002
    b) 2000
    c) 2001
    d) 2005
87. Traders are required to deposit a fraction of the value of their outstanding position, while trading in derivatives called …..
    a) Margin trading
    b) Position trading
    c) Spread trading
    d) Security trading
88. Currency futures are traded in Indian markets on …. Currencies.
    a) US Dollars
    b) Euro
    c) Yen
    d) Both a and b
89. In the future contract, the party who agrees to sell the specified asset is said to be in the ----?
    a) Short position
    b) Long position
    c) Medium term position
    d) None of these

90. The specified price is referred to as the ---in futures contract.
   a) Future price
   b) Current price
   c) Market price
   d) Stock price
91. The parties enter into future agreements on the basis of their expectations of the future price in the spot market for their asset is -----?
   a) Hedging
   b) Speculation
   c) Both a and b
   d) None of these
92. Future contract where the underlying asset is an individual stock:
   a) Stock future
   b) Index future
   c) Interest rate futures
   d) Stock index futures
93. Future contract where the underlying asset is a stock market index:
   a) Index future
   b) Currency future
   c) Stock future
   d) Stock index future
94. ----Future contract where the underlying asset is a foreign currency.
   a) Currency future
   b) Stock future
   c) Index future
   d) Stock index future
95. A future contract can be settled on any day ----
   a) Before the maturity date
   b) After the maturity date
   c) After 1 year of the maturity date
   d) On the date of maturity
96. Which of the following best describes the terms “spot price”.
   a) The price for immediate delivery
   b) The price for delivery at a future time.
   c) None of the above
   d) Both a and b
97. Market risk is also known as
   a) Uniquerisk
   b) Financial risk
   c) Non-diversified risk
   d) Diversified risk
98. When a financial institution hedges the interest-rate risk for a specific asset, the hedge is called a
   a) macro hedge.
   b) micro hedge.
   c) cross hedge.
   d) futures hedge.

99. Price risk is also known as:

a) Production risk
b) Market risk
c) Counterparty risk
d) Credit risk

100. Credit risk occurs due to:

a) Variations in exchange rate
b) Counterparty default
c) Trade limits
d) Insufficiency of fund

ANSWERS

1.	b	2.	d	3.	a	4.	b	5.	c	6.	d	7.	c
8.	d	9.	b	10.	a	11.	b	12.	b	13.	a	14.	c
15.	b	16.	a	17.	d	18.	b	19.	b	20.	a	21.	a
22.	c	23.	c	24.	c	25.	a	26.	b	27.	a	28.	c
29.	a	30.	c	31.	c	32.	b	33.	b	34.	a	35.	d
36.	a	37.	a	38.	a	39.	b	40.	b	41.	b	42.	a
43.	b	44.	c	45.	b	46.	a	47.	d	48.	d	49.	c
50.	d	51.	d	52.	c	53.	a	54.	c	55.	a	56.	b
57.	b	58.	b	59.	b	60.	b	61.	b	62.	a	63.	b
64.	c	65.	a	66.	a	67.	a	68.	a	69.	b	70.	a
71.	a	72.	a	73.	b	74.	b	75.	a	76.	a	77.	a
78.	a	79.	a	80.	a	81.	d	82.	b	83.	a	84.	b
85.	c	86.	a	87.	a	88.	d	89.	a	90.	a	91.	a
92.	a	93.	a	94.	a	95.	a	96.	a	97.	c	98.	b
99.	b	100.	b										