Test Bank: Chapter 1
Introduction

1. List three types of traders in futures, forward, and options markets

    i. _________

    ii. _________

    iii. _________

2. Which of the following is **not** true (circle one)

    a. When a CBOE call option on IBM is exercised, IBM issues more stock
    b. An American option can be exercised at any time during its life
    c. An call option will always be exercised at maturity if the underlying asset price is greater than the strike price
    d. A put option will always be exercised at maturity if the strike price is greater than the underlying asset price.

3. A trader enters into a one-year short forward contract to sell an asset for $60 when the spot price is $58. The spot price in one year proves to be $63. What is the trader's gain or loss? Show a dollar amount and indicate whether it is a gain or a loss.

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4. A trader buys 100 European call options (i.e., one contract) with a strike price of $20 and a time to maturity of one year. The cost of each option is $2. The price of the underlying asset proves to be $25 in one year. What is the trader's gain or loss? Show a dollar amount and indicate whether it is a gain or a loss.

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5. A trader sells 100 European put options (i.e., one contract) with a strike price of $50 and a time to maturity of six months. The price received for each option is $4. The price of the underlying asset is $41 in six months. What is the trader's gain or loss? Show a dollar amount and indicate whether it is a gain or a loss.

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6. The price of a stock is $36 and the price of a three-month call option on the stock with a strike price of $36 is $3.60. Suppose a trader has $3,600 to invest and is trying to choose between buying 1,000 options and 100 shares of stock. How high does the stock price have to rise for an investment in options to lead to the same profit as an investment in the stock? ______

7. A one-year call option on a stock with a strike price of $30 costs $3; a one-year put option on the stock with a strike price of $30 costs $4. Suppose that a trader buys two call options and one put option.
   (i) What is the breakeven stock price, above which the trader makes a profit?

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   (ii) What is the breakeven stock price below which the trader makes a profit?

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