

Chapter 13

Financial Futures Markets

1. A(n) _____ is a standardized agreement to deliver or receive a specified amount of a specified financial instrument at a specified price and date.
A) option contract
B) brokerage contract
C) financial futures contract
D) margin call

ANSWER: C

2. Interest rate futures are not available on:
A) Treasury bonds.
B) Treasury notes.
C) Eurodollar CDs.
D) the S&P 500 index.

ANSWER: D

3. _____ take positions in futures to reduce their exposure to future movements in interest rates or stock prices.
A) Hedgers
B) Day traders
C) Position traders
D) None of these

ANSWER: A

4. _____ trade futures contracts for their own account.
A) Commission brokers
B) Floor brokers
C) Commission traders
D) Floor traders

ANSWER: D

5. The initial margin of a futures contract is typically between _____ and _____ percent of a futures contract's full value.
A) 0; 2
B) 5; 18
C) 25; 40
D) 45; 60

ANSWER: B

6. If the prices of Treasury bonds _____, the value of an existing Treasury bond futures contract should _____.
- A) increase; be unaffected
 - B) decrease; be unaffected
 - C) decrease; decrease
 - D) decrease; increase

ANSWER: C

7. Assume that a T-bill futures contract with a face value of \$1 million is purchased at a price of \$95 per \$100 face value. At settlement, the price of T-bills is \$95.50. What is the difference between the selling and purchase price of the futures contract?
- A) \$.50
 - B) \$50
 - C) \$500
 - D) \$5,000
 - E) none of these

ANSWER: D

8. If speculators believe interest rates will _____, they would consider _____ a T-bill futures contract today.
- A) increase; selling
 - B) increase; buying
 - C) decrease, selling
 - D) decrease; purchasing a call option on

ANSWER: A

9. Financial futures contracts on U.S. securities are _____ by non-U.S. financial institutions.
- A) not allowed to be traded
 - B) rarely desired
 - C) commonly traded
 - D) not allowed to be traded and rarely desired

ANSWER: C

10. Assume that speculators had purchased a futures contract at the beginning of the year. If the price of a security represented by a futures contract _____ over the year, then these speculators would likely have purchased the futures contract for _____ than they can sell it for.
- A) increases; more
 - B) decreases; less
 - C) remains the same; more
 - D) increases; less

ANSWER: D

11. Assume that a futures contract on Treasury bonds with a face value of \$100,000 is purchased at 93-00. If the same contract is later sold at 94-18, what is the gain, ignoring transactions costs?
- A) \$1,180,000
 - B) \$118
 - C) \$11,800
 - D) \$15,625
 - E) \$1,562.50

ANSWER: E

12. The use of financial leverage:
- A) magnifies the positive returns of futures contracts.
 - B) magnifies losses of futures contracts.
 - C) does both of these.
 - D) does neither of these.

ANSWER: C

13. According to the text, when a financial institution sells futures contracts on securities in order to hedge against a change in interest rates, this is referred to as:
- A) a long hedge.
 - B) a short hedge.
 - C) a closed-out position.
 - D) basis trading.

ANSWER: B

14. A financial institution that maintains some Treasury bond holdings sells Treasury bond futures contracts. If interest rates increase, the market value of the bond holdings will _____ and the position in futures contracts will result in a _____.
- A) increase; gain
 - B) increase; loss
 - C) decrease; gain
 - D) decrease; loss

ANSWER: C

15. The basis is the:
- A) difference between the price of a security and the price of a futures contract on the security.
 - B) gain or loss from hedging with futures contracts.
 - C) difference between a futures contract price and the initial deposit required.
 - D) price paid for a futures contract after accounting for transactions costs.
 - E) price paid for an option contract.

ANSWER: A