

Chapter 14

Options Markets

1. A _____ grants the owner the right to purchase a specified financial instrument for a specified price within a specified period of time.
A) call option
B) put option
C) sale of a futures contract
D) purchase of a futures contract

ANSWER: A

2. A _____ requires a premium above and beyond the price to be paid for the financial instrument.
A) futures contract
B) call option
C) put option
D) call option and put option

ANSWER: D

3. A call option is “in the money” when the:
A) market price of the underlying security exceeds the exercise price.
B) market price of the underlying security equals the exercise price.
C) market price of the underlying security is less than the exercise price.
D) premium on the option is less than the exercise price.

ANSWER: A

4. A put option is “out of the money” when the:
A) market price of the underlying security exceeds the exercise price.
B) market price of the underlying security equals the exercise price.
C) market price of the underlying security is less than the exercise price.
D) premium on the option is less than the exercise price.

ANSWER: A

5. When the market price of the underlying security exceeds the exercise price, the:
A) call option is in the money.
B) put option is in the money.
C) call option is at the money.
D) call option is out of the money.

ANSWER: A

6. When the exercise price exceeds the market price of the underlying security, the:
- A) call option is in the money.
 - B) put option is in the money.
 - C) call option is at the money.
 - D) put option is out of the money.

ANSWER: B

7. Sellers (writers) of call options can offset their position at any point in time by:
- A) selling a put option on the same stock.
 - B) buying identical call options.
 - C) selling additional call options on the same stock.
 - D) doing all of these.

ANSWER: B

8. The _____ is the most important exchange for trading options.
- A) New York Stock Exchange (NYSE)
 - B) Chicago Board of Options Exchange (CBOE)
 - C) Chicago Mercantile Exchange (CME)
 - D) Philadelphia Stock Exchange

ANSWER: B

9. _____ execute transactions desired by investors and trade stock options for their own account.
- A) Floor brokers
 - B) Specialists
 - C) Market-makers
 - D) None of these

ANSWER: C

10. A speculator buys a call option for \$3, with an exercise price of \$50. The stock is currently priced at \$49, and rises to \$55 on the expiration date. The speculator will exercise the option on the expiration date (if it is feasible to do so). What is the speculator's profit per unit?
- A) \$1
 - B) \$5
 - C) \$2
 - D) □\$1
 - E) □\$2

ANSWER: C

11. A speculator buys a call option for \$3, with an exercise price of \$50. The stock is currently priced at \$49, and rises to \$55 on the expiration date. What is the stock price at which the speculator would break even?
- A) \$50
 - B) \$58
 - C) \$52
 - D) \$53
 - E) \$49

ANSWER: D

12. A speculator purchases a put option for a premium of \$4, with an exercise price of \$30. The stock is presently priced at \$29, and rises to \$32 before the expiration date. What is the maximum profit per unit to the speculator who owned the put option assuming he or she exercises the option at the ideal time?
- A) □\$4
 - B) □\$3
 - C) □\$2
 - D) \$2
 - E) \$3

ANSWER: B

13. A speculator purchases a put option for a premium of \$4, with an exercise price of \$30. The stock is presently priced at \$29, and rises to \$32 before the expiration date. What is the stock price at which the speculator would break even?
- A) \$26
 - B) \$34
 - C) \$28
 - D) \$29
 - E) \$32

ANSWER: A

14. The _____, the higher the call option premium, other things being equal.
- A) lower the existing price of the security relative to the exercise price
 - B) lower the variability of the security's market price
 - C) longer the maturity of the option
 - D) none of these

ANSWER: C

15. The _____, the lower the premium on a put option, other things being equal.
- A) higher the existing price of the security relative to the exercise price
 - B) greater the variability of the security's market value
 - C) longer the maturity of the option
 - D) none of these

ANSWER: A