

MODEL TEST PAPER
DERIVATIVES MARKET DEALERS MODULE

- Q.1 Theta is also referred to as the _____ of the portfolio [1 Mark]
- (a) time decay
 - (b) risk delay
 - (c) risk decay
 - (d) time delay
- Q.2 All of the following are true regarding futures contracts except [2 Marks]
- (a) they are regulated by RBI
 - (b) they require payment of a performance bond
 - (c) they are a legally enforceable promise
 - (d) they are market to market
- Q.3 Clearing Members (CMs) and Trading Members (TMs) are required to collect upfront initial margins from all their Trading Members/Constituents. [2 Marks]
- (a) FALSE
 - (b) TRUE
- Q.4 All open positions in the index futures contracts are daily settled at the [3 Marks]
- (a) mark-to-market settlement price
 - (b) net settlement price
 - (c) opening price
 - (d) closing price
- Q.5. An American style call option contract on the Nifty index with a strike price of 3040 expiring on the 30th June 2008 is specified as '30 JUN 2008 3040 CA'. [2 Marks]
- (a) FALSE
 - (b) TRUE
- Q.6 Usually, open interest is maximum in the _____ contract. [2 Marks]
- (a) more liquid contracts
 - (b) far month
 - (c) middle month
 - (d) near month

- Q.7 An equity index comprises of _____. [1 Mark]
- (a) basket of stocks
 - (b) basket of bonds and stocks
 - (c) basket of tradeable debentures
 - (d) None of the above
- Q.8 Position limits have been specified by _____ at trading member, client, market and FII levels respectively. [2 Marks]
- (a) Sub brokers
 - (b) Brokers
 - (c) SEBI
 - (d) RBI
- Q.9 An order which is activated when a price crosses a limit is _____ in F&O segment of NSEIL. [1 Mark]
- (a) stop loss order
 - (b) market order
 - (c) fill or kill order
 - (d) None of the above
- Q.10 Which of the following is not a derivative transaction? [1 Mark]
- (a) An investor buying index futures in the hope that the index will go up.
 - (b) A copper fabricator entering into futures contracts to buy his annual requirements of copper.
 - (c) A farmer selling his crop at a future date
 - (d) An exporter selling dollars in the spot market
- Q.11 An investor is bearish about ABC Ltd. and sells ten one-month ABC Ltd. futures contracts at Rs.5,00,000. On the last Thursday of the month, ABC Ltd. closes at Rs.510. He makes a _____. (assume one lot = 100) [2 Marks]
- (a) Profit of Rs. 10,000
 - (b) loss of Rs. 10,000
 - (c) loss of Rs. 5,100
 - (d) profit of Rs. 5,100

- Q.12 The interest rates are usually quoted on : [2 Marks]
- (a) Per annum basis
 - (b) Per day basis
 - (c) Per week basis
 - (d) Per month basis
- Q.13 After SPAN has scanned the 16 different scenarios of underlying market price and volatility changes, it selects the _____ loss from among these 16 observations [2 Marks]
- (a) largest
 - (b) 8th smallest
 - (c) smallest
 - (d) average
- Q.14 Mr. Ram buys 100 calls on a stock with a strike of Rs.1,200. He pays a premium of Rs.50/call. A month later the stock trades in the market at Rs.1,300. Upon exercise he will receive _____. [2 Marks]
- (a) Rs.10,000
 - (b) Rs.1,200
 - (c) Rs.6,000
 - (d) Rs.1,150
- Q.15 There are no Position Limits prescribed for Foreign Institutional Investors (FIIs) in the F&O Segment. [1 Mark]
- (a) TRUE
 - (b) FALSE
- Q.16 In the Black-Scholes Option Pricing Model, when S becomes very large a call option is almost certain to be exercised [2 Marks]
- (a) FALSE
 - (b) TRUE
- Q.17 Suppose Nifty options trade for 1, 2 and 3 months expiry with strike prices of 1850, 1860, 1870, 1880, 1890, 1900, 1910. How many different options contracts will be tradable? [2 Marks]
- (a) 27
 - (b) 42
 - (c) 18
 - (d) 24

- Q.18 Prior to Financial Year 2005 - 06, transaction in derivatives were considered as speculative transactions for the purpose of determination of tax liability under the Income-tax Act [1 Mark]
- (a) TRUE
(b) FALSE
- Q.19 _____ is allotted to the Custodial Participant (CP) by NSCCL. [3 Marks]
- (a) A unique CP code
(b) An order identifier
(c) A PIN number
(d) A trade identifier
- Q.20 An interest rate is 15% per annum when expressed with annual compounding. What is the equivalent rate with continuous compounding? [2 Marks]
- (a) 14%
(b) 14.50%
(c) 13.98%
(d) 14.75%
- Q.21 The favorable difference received by buyer/holder on the exercise/expiry date, between the final settlement price as and the strike price, will be recognized as _____ [2 Marks]
- (a) Income
(b) Expense
(c) Cannot say
(d) None
- Q.22 The F&O segment of NSE provides trading facilities for the following derivative instruments, except [2 Marks]
- (a) Individual warrant options
(b) Index based futures
(c) Index based options
(d) Individual stock options
- Q.23 Derivative is defined under SC(R)A to include : A contract which derives its value from the prices, or index of prices, of underlying securities. [1 Mark]
- (a) TRUE
(b) FALSE

- Q.24 The risk management activities and confirmation of trades through the trading system of NSE is carried out by _____. [2 Marks]
- (a) users
 - (b) trading members
 - (c) clearing members
 - (d) participants
- Q.25 A dealer sold one January Nifty futures contract for Rs.250,000 on 15th January. Each Nifty futures contract is for delivery of 50 Nifties. On 25th January, the index closed at 5100. How much profit/loss did he make ? [2 Marks]
- (a) Profit of Rs. 9000
 - (b) Loss of Rs. 8000
 - (c) Loss of Rs. 9500
 - (d) Loss of Rs. 5000
- Q.26 Manoj owns five hundred shares of ABC Ltd. Around budget time, he gets uncomfortable with the price movements. Which of the following will give him the hedge he desires (assuming that one futures contract = 100 shares) ? [1 Mark]
- (a) Buy 5 ABC Ltd.futures contracts
 - (b) Sell 5 ABC Ltd.futures contracts
 - (c) Sell 10 ABC Ltd.futures contracts
 - (d) Buy 10 ABC Ltd.futures contracts
- Q.27 An investor is bearish about Tata Motors and sells ten one-month ABC Ltd. futures contracts at Rs.6,06,000. On the last Thursday of the month, Tata Motors closes at Rs.600. He makes a _____. (assume one lot = 100) [2 Marks]
- (a) Profit of Rs. 6,000
 - (b) Loss of Rs. 6,000
 - (c) Profit of Rs. 8,000
 - (d) Loss of Rs. 8,000
- Q.28 The beta of Jet Airways is 1.3. A person has a long Jet Airways position of Rs. 200,000 coupled with a short Nifty position of Rs.100,000. Which of the following is TRUE? [2 Marks]
- (a) He is bullish on Nifty and bearish on Jet Airways
 - (b) He has a partial hedge against fluctuations of Nifty
 - (c) He is bearish on Nifty as well as on Jet Airways
 - (d) He has a complete hedge against fluctuations of Nifty

- Q.29 Suppose a stock option contract trades for 1, 2 and 3 months expiry with strike prices of 85, 90, 95, 100, 105, 110, 115. How many different options contracts will be tradable? [2 Marks]
- (a) 18
 - (b) 32
 - (c) 21
 - (d) 42
- Q.30 The bull spread can be created by only buying and selling [2 Marks]
- (a) basket option
 - (b) futures
 - (c) warrant
 - (d) options
- Q.31 A stock broker means a member of _____. [1 Mark]
- (a) SEBI
 - (b) any exchange
 - (c) a recognized stock exchange
 - (d) any stock exchange
- Q.32 Ashish is bullish about HLL which trades in the spot market at Rs.210. He buys 10 three-month call option contracts on HLL with a strike of 230 at a premium of Rs.1.05 per call. Three months later, HLL closes at Rs. 250. Assuming 1 contract = 100 shares, his profit on the position is _____. [1 Mark]
- (a) Rs.18,950
 - (b) Rs.19,500
 - (c) Rs.10,000
 - (d) Rs.20,000
- Q.33 A January month Nifty Futures contract will expire on the last _____ of January [2 Marks]
- (a) Monday
 - (b) Thursday
 - (c) Tuesday
 - (d) Wednesday
- Q.34 Which of the following are the most liquid stocks? [2 Marks]
- (a) All Infotech stocks
 - (b) Stocks listed/permitted to trade at the NSE
 - (c) Stocks in the Nifty Index
 - (d) Stocks in the CNX Nifty Junior Index

- Q.35 In the books of the buyer/holder of the option, the premium paid would be _____ to 'Equity Index Option Premium Account' or 'Equity Stock Option Premium Account', as the case may be. [2 Marks]
- (a) Debited
 - (b) Credited
 - (c) Depends
 - (d) None
- Q.36 Greek letter measures a dimension to _____ in an option position. [1 Mark]
- (a) the risk
 - (b) the premium
 - (c) the relationship
 - (d) None
- Q.37 An option which gives the holder the right to sell a stock at a specified price at some time in the future is called a _____. [1 Mark]
- (a) Naked option
 - (b) Call option
 - (c) Out-of-the-money option
 - (d) Put option
- Q.38 Trading member Shantilal took proprietary purchase in a March 2000 contract. He bought 1500 units @Rs.1200 and sold 1400 units @ Rs. 1220. The end of day settlement price was Rs. 1221. What is the outstanding position on which initial margin will be calculated? [1 Mark]
- (a) 300 units
 - (b) 200 units
 - (c) 100 units
 - (d) 500 units
- Q.39 In which year, foreign currency futures based on new floating exchange rate system were introduced at the Chicago Mercantile Exchange [1 Mark]
- (a) 1970
 - (b) 1975
 - (c) 1972
 - (d) 1974

- Q.40 The units of price quotation and minimum price change are not standardised item in a Futures Contract. [1 Mark]
- (a) TRUE
 - (b) FALSE
- Q.41 With the introduction of derivatives the underlying cash market witnesses _____ [1 Mark]
- (a) lower volumes
 - (b) sometimes higher, sometimes lower
 - (c) higher volumes
 - (d) volumes same as before
- Q.42 Clearing members need not collect initial margins from the trading members [1 Mark]
- (a) FALSE
 - (b) TRUE
- Q.43 Which risk estimation methodology is used for measuring initial margins for futures/ options market? [2 Marks]
- (a) Value At Risk
 - (b) Law of probability
 - (c) Standard Deviation
 - (d) None of the above
- Q.44 The value of a call option _____ with a decrease in the spot price. [2 Marks]
- (a) increases
 - (b) does not change
 - (c) decreases
 - (d) increases or decreases
- Q.45 Any person or persons acting in concert who together own _____% or more of the open interest in index derivatives are required to disclose the same to the clearing corporation. [1 Mark]
- (a) 35
 - (b) 15
 - (c) 5
 - (d) 1

- Q.46 NSE trades Nifty, CNX IT, BANK Nifty, Nifty Midcap 50 and Mini Nifty futures contracts having all the expiry cycles, except. [2 Marks]
- (a) Two-month expiry cycles
 - (b) Four month expiry cycles
 - (c) Three-month expiry cycles
 - (d) One-month expiry cycles
- Q.47 An investor owns one thousand shares of Reliance. Around budget time, he gets uncomfortable with the price movements. One contract on Reliance is equivalent to 100 shares. Which of the following will give him the hedge he desires? [2 Marks]
- (a) Buy 5 Reliance futures contracts
 - (b) Sell 10 Reliance futures contracts
 - (c) Sell 5 Reliance futures contracts
 - (d) Buy 10 Reliance futures contracts
- Q.48 Spot Price = Rs. 100. Call Option Strike Price = Rs. 98. Premium = Rs. 4. An investor buys the Option contract. On Expiry of the Option the Spot price is Rs. 108. Net profit for the Buyer of the Option is _____. [1 Mark]
- (a) Rs. 6
 - (b) Rs. 5
 - (c) Rs. 2
 - (d) Rs. 4
- Q.49 In the NEAT F&O system, the hierarchy amongst users comprises of _____. [2 Marks]
- (a) branch manager, dealer, corporate manager
 - (b) corporate manager, branch manager, dealer
 - (c) dealer, corporate manager, branch manager
 - (d) corporate manager, dealer, branch manager
- Q.50 The open position for the proprietary trades will be on a _____. [3 Marks]
- (a) net basis
 - (b) gross basis
- Q.51 The minimum networth for clearing members of the derivatives clearing corporation/ house shall be _____. [2 Marks]
- (a) Rs.300 Lakh
 - (b) Rs.250 Lakh
 - (c) Rs.500 Lakh
 - (d) None of the above

- Q.52 The Black-Scholes option pricing model was developed in _____. [2 Marks]
- (a) 1923
 - (b) 1973
 - (c) 1887
 - (d) 1987
- Q.53 In the case of index futures contracts, the daily settlement price is the _____. [3 Marks]
- (a) closing price of futures contract
 - (b) opening price of futures contract
 - (c) closing spot index value
 - (d) opening spot index value
- Q.54 Premium Margin is levied at _____ level. [1 Mark]
- (a) client
 - (b) clearing member
 - (c) broker
 - (d) trading member
- Q.55 In the Black-Scholes Option Pricing Model, as S becomes very large, both $N(d_1)$ and $N(d_2)$ are both close to 1.0. [2 Marks]
- (a) FALSE
 - (b) TRUE
- Q.56 To operate in the derivative segment of NSE, the dealer/broker and sales persons are required to pass _____ examination. [1 Mark]
- (a) Certified Financial Analyst
 - (b) MBA (Finance)
 - (c) NCFM
 - (d) Chartered Accountancy
 - (e) Not Attempted
- Q.57 The NEAT F&O trading system _____. [1 Mark]
- (a) allows one to enter spread trades
 - (b) does not allow spread trades
 - (c) allows only a single order placement at a time
 - (d) None of the above

- Q.58 Margins levied on a member in respect of options contracts are Initial Margin, Premium Margin and Assignment Margin [1 Mark]
- (a) TRUE
(b) FALSE
- Q.59 American option are frequently deduced from those of its European counterpart [1 Mark]
- (a) FALSE
(b) TRUE
- Q.60 Which of the following is closest to the forward price of a share price if Cash Price = Rs.750, Futures Contract Maturity = 1 year from date, Market Interest rate = 12% and dividend expected is 6%? [2 Marks]
- (a) Rs. 795
(b) Rs. 705
(c) Rs. 845
(d) None of these

Question No.	Answers	Question No.	Answers
1	(a)	31	(c)
2	(a)	32	(a)
3	(b)	33	(b)
4	(a)	34	(c)
5	(b)	35	(a)
6	(d)	36	(a)
7	(a)	37	(d)
8	(c)	38	(c)
9	(a)	39	(c)
10	(d)	40	(b)
11	(b)	41	(c)
12	(a)	42	(a)
13	(a)	43	(a)
14	(a)	44	(c)
15	(b)	45	(b)
16	(b)	46	(b)
17	(b)	47	(b)
18	(a)	48	(a)
19	(a)	49	(b)
20	(c)	50	(a)
21	(a)	51	(a)
22	(a)	52	(b)
23	(a)	53	(a)
24	(c)	54	(a)
25	(d)	55	(b)
26	(b)	56	(c)
27	(a)	57	(a)
28	(b)	58	(a)
29	(d)	59	(b)
30	(d)	60	(a)