Question #1 of 26

Which of the following positions represents a straddle?

A) Buy a 100 call, buy a 105 put.

B) Buy a 100 call, write a 105 put.

C) Write a 100 call, write a 100 put.

Question #2 of 26

An investor buys a 60 put for a premium of $6.25 and sells a 50 put for a premium of $1.50. This position will be *most* profitable if the stock price on the day the options expire is:

A) $65.00.

B) $45.00.

C) $55.00.

Question #3 of 26

An investor who creates a long straddle *most likely* expects the underlying security to:

A) increase in price.

B) increase in volatility.

C) remain near its current price.

Question #4 of 26

An investor who owns a stock establishes a same-strike collar on the stock. The combined position has a payoff diagram *most* similar to a:

A) risk-free asset.

B) bull spread.

C) straddle.

Question #5 of 26

The primary downside in creating a protective put position is that:

A) the stock price can decrease to zero.

B) it requires paying a premium.

C) the stock price can increase without limit.

Question #6 of 26

In which type of swap contract is notional principal *most likely* to be exchanged at initiation?

A) Equity swap.

B) Interest rate swap.

C) Currency swap.

Question #7 of 26

An investor who purchased a stock for $25 establishes a collar using a 28 call and a 22 put, each of which has a premium of $0.85. Which of the following statements about this position is *most accurate*?

A) The maximum gain on the position occurs at a stock price of $26.30 or greater.

B) The breakeven stock price is $25.

C) The maximum loss on the position is zero.

Question #8 of 26

An investor that takes a calendar spread position is *least likely* to be attempting to benefit from:

A) mispriced options.

B) an increase in volatility.

C) time decay.

Question #9 of 26

An investor holds a long position in a stock and a short forward position on half the shares of the stock. The investor's position delta can be replicated by:

A) an at-the-money covered call, but not by an at-the-money protective put.

B) either an at-the-money covered call or an at-the-money protective put.

C) an at-the-money protective put, but not by an at-the-money covered call.

Question #10 of 26

An investor buys a stock for $30 and writes a call option on the stock with an exercise price of $33 when the premium on such an option is $1. Which of the following statements about this position is *most accurate*?

A) The investor will break even if the stock price decreases to $29.

B) The maximum gain is $4 and occurs if the stock price is $31 or higher.

C) The maximum loss is $1 and occurs if the stock price is $29 or lower.

Question #11 of 26

If a fixed-income portfolio manager enters an interest rate swap on the pay-fixed side, what effect will this *most likely* have on overall portfolio duration?

A) Increase.

B) Decrease.

C) No effect.

Question #12 of 26

In an equity return swap for Libor, if the return on the underlying equity portfolio is negative for a payment period, the equity return payer will:

A) receive a net payment less than the loss of value on the equity portfolio.

B) make a net payment greater than the loss of value on the equity portfolio.

C) receive a net payment greater than the loss of value on the equity portfolio.

Question #13 of 26

Combining a short position in a stock with a long position in a call option on the stock will produce a payoff pattern equivalent to a:

A) risk-free security.

B) short position in a put option on the stock.

C) long position in a put option on the stock.

Question #14 of 26

An investor establishes a bull spread using a 20 call with a premium of $3.50 and a 26 call with a premium of $1.00. On the expiration date of the calls, this spread has a:

A) maximum profit of $3.50.

B) maximum loss of $4.50.

C) breakeven stock price of $24.50.

Question #15 of 26

An equity portfolio manager who has a positive long-term outlook for equities, but expects equity prices to decline over the next three months, would *most appropriately* enter into:

A) a calendar spread.

B) an equity swap.

C) a covered call position.

Question #16 of 26

To create a synthetic short position in a stock, an investor can buy:

A) a put option on the stock and sell a call option on the stock.

B) a call option on the stock and sell a put option on the stock.

C) both a call option on the stock and a put option on the stock.

Question #17 of 26

Compared to the delta of a long position in a stock, the delta of an at-the-money call option on the stock is *most likely* to be:

A) less.

B) the same.

C) greater.

Question #18 of 26

An investor is long a call option with an exercise price of 30. The investor can create a bear spread by:

A) buying a call option with an exercise price of 25.

B) writing a call option with an exercise price of 25.

C) buying a put option with an exercise price of 35.

Question #19 of 26

The primary advantage of a collar as compared to a protective put is that a collar:

A) has more upside potential.

B) provides more downside protection.

C) has a lower cost.

Question #20 of 26

A 42 call has a premium of $0.55 and a 42 put has a premium of $1.45. For an investor who establishes a long straddle with these options, the maximum loss occurs if the stock price on the day the options expire is:

A) either $40 or $44.

B) between $40 and $44.

C) exactly $42.

Question #21 of 26

The payoff diagram of a covered call position is *most* similar to that of:

A) buying a put option.

B) a protective put position.

C) writing a put option.

Question #22 of 26

The payoff diagram of a protective put position is *most* similar to that of:

A) selling a call option.

B) buying a call option.

C) a covered call position.

Question #23 of 26

Which of the following positions represents a bull spread?

A) Long 45 call, short 40 call.

B) Long 40 call, short 45 put.

C) Long 40 put, short 45 put.

Question #24 of 26

The investment objective of an investor who creates a covered call position is *most likely* to:

A) protect against loss.

B) generate income.

C) benefit from increasing volatility.

Question #25 of 26

An investor establishes a protective put position consisting of a stock she bought for $80 and an option with a premium of $2 and an exercise price of $75. The investor's maximum loss:

A) occurs at a stock price of $85 or greater.

B) is equal to $2.

C) occurs at a stock price of $75 or less.

Question #26 of 26

The maximum payoff on a bull spread with option exercise prices at 21 and 23:

A) occurs at any stock price below 21.

B) occurs at any stock price above 23.

C) is unlimited.