Question #1 of 15

Which commodity is *most likely* to be characterized by large economies of scale in production?

A) Wheat.

B) Copper.

C) Cattle.

Question #2 of 15

Political risk is *least likely* to affect the price of which commodity?

A) Oil.

B) Coffee.

C) Industrial Metals.

Question #3 of 15

An oil refiner wants to hedge oil price risk using a swap. The swap pays the oil price above $50 per barrel in exchange for a fixed price of $1 per barrel. The notional principal is 1 million barrels. If the refiner enters the swap, the total profit to the refiner if the price of oil is $52 is *closest* to:

A) +$1,000,000

B) $2,000,000

C) +$2,000,000

Question #4 of 15

Don Chancery is working on a forecast of commodity price movements for the economic research department at his investment firm. He is basing his predictions on the theory that pricing is driven solely by producers who hold (or expect to hold) commodities, and hedge their position with a short futures contract, leading to normal backwardation. Which of the following theories is Chancery *most likely* using?

A) The Hedging Pressure Hypothesis.

B) The Theory of Storage.

C) The Insurance Theory.

Question #5 of 15

As compared to a production value-weighted index, an equally weighted index would *most likely* have:

A) lower weight to oil.

B) higher weight to oil.

C) equal weight to oil.

Question #6 of 15

As opposed to stocks and bonds, commodities are *most likely*:

A) physical assets.

B) traded on futures exchanges.

C) characterized by lack of intrinsic value.

Question #7 of 15

Ben Tarson, CFA is currently undertaking an analysis of the commodity markets to present to a potential client. Part of his presentation concerns the impact short hedgers have on the price of commodity futures contracts. Which of the following market participants is *most* likely to take a short hedge position?

A) A hedge fund buying copper in the spot market and selling copper futures contracts.

B) Airline looking to purchase fuel forward.

C) Wheat farmer looking to sell wheat forward.

Question #8 of 15

A commodity futures contract in contango will most likely:

A) entail purchasing more contracts to maintain same value exposure to the commodity.

B) entail purchasing fewer contracts to maintain same value exposure to the commodity.

C) lead to positive roll return.

Question #9 of 15

Roger Torsten is studying historical data on the commodities markets to assist with his a forecast he is producing in his role as an economic researcher. He has observed long periods in the past when the term structure of the futures market for a commodity displays a negative trend. Which of the following explanations is *most likely* an explanation for this observed trend?

A) Due to an increase in the supply of the commodity, the convenience yield has dropped to nearly zero.

B) Manufacturers, concerned about increasing commodity prices are buying commodity futures to hedge input costs.

C) Producers concerned about a potential drop in price of the commodity are taking hedging positions to lock in a sales price.

Question #10 of 15

Which of the following statements regarding commodity returns is *least* accurate?

A) The collateral yield on a commodity futures position is negative if the convenience yield is lower than the storage cost.

B) A commodity futures market in backwardation will increase the return on an investor's position via a positive roll yield.

C) Due to roll yield and collateral yield, a commodity futures position may have a positive yield despite a drop in the spot price.

Question #11 of 15

Which of the following statements regarding the pricing of commodity futures contracts is *most* accurate?

A) The convenience yield for a commodity is positively correlated with the futures price.

B) Commodities that are subject to sudden and large demand shocks may exhibit backwardation in the futures market due to significant convenience yields.

C) The arbitrage free price of a commodities futures contract is often lower than that of a financial security futures contract due to storage costs.

Question #12 of 15

Suppose that corn futures contracts are in backwardation. Which of the following is *least likely* to be true?

A) Spot price of corn is higher than the futures price.

B) the basis for corn futures contract is negative.

C) roll yield on the corn futures is positive.

Question #13 of 15

The current spot price of a commodity is $85.20. An investor purchases a 6 month futures contract on the underlying commodity at a price of $84.80. Which of the following statements regarding the roll yield is *most* accurate?

A) Roll return will only be positive if the spot price drops below $85.20 at maturity.

B) Roll return will only be negative if the spot price drops below $84.80 at maturity.

C) If the market stays in backwardation, the roll return will be positive regardless of the movement in spot price.

Question #14 of 15

Which of the following commodities has historically been least likely to be traded globally?

A) Corn.

B) Natural gas.

C) Livestock.

Question #15 of 15

An investor establishes a long position in 800 WTI (oil) contracts at $45 per barrel. Which of the following components of investor's return will have a non-negative value?

A) rebalancing return

B) roll return

C) price return