(Introduction, Forex Derivatives & Futures)

Q1. The standard settlement convention for spot trade is......

A. Trade date
B. Trade date + 1
C. Trade date + 2
D. Trade date + 3

Ans: (C)

Q2. In foreign exchange markets the base currency is the....

A. Term currency
B. First currency in the currency pair
C. Second currency in the currency pair
D. US Dollar

Ans: (B)

Q3. Exchange rates change constantly it means.....

A. Currencies are constantly in flux
B. Currencies are constantly weakening & strengthening against each other
C. Currencies are appreciating and depreciating against each other
D. All of the above

Ans: (D)

Q4. Forward rate is derived by adjusting the spot rate .....

- For time differentials for the period
- For interest rate differential for the period
- Perceived risk for the period
- All of the above

Ans: (B)

Q5. Exchange rates exist because..

A. Almost every country has its own monetary unit
B. Countries do not recognize other currencies
C. Of regional and language differences
D. None of the above

Ans: (A)

Q6. The exchange rate is the....

A. Number of units surrendered to acquire units of another nations currency
B. Amount of Dollars surrendered to acquire Rupees
C. Amount of Rupees surrendered to acquire Dollars
D. All of the above

Ans: (A)

Q7. The USD took on the role of a vehicle currency mainly because....

A. The United States is the most powerful nation
B. It is widely traded against other currencies
C. The USD is backed by gold reserves
D. All of the above

Ans: (B)

Q8. Which of the following is considered to be a more stable currency

A. Dollar
B. Pound Sterling
C. Swiss Franc
D. Euro

Ans: (C)

Q9. International foreign exchange markets are....

A. Generally restricted to participants from the country
B. Generally not restricted to any participants
C. Generally restricted to banks and currency dealers
D. None of the above

Ans: (B)
Discuss Indian conditions

Q10. Economic variables such as inflation rates, interest rates....

A. Do not have any impact on exchange rates
B. Have limited impact on exchange rates
C. Directly impact exchange rates
D. All of the above

Ans: (C)
General Rule

Q11. Government policy and central bank stance could impact....

A. Interest rates ,inflation rates and hence exchange rates
B. Employment rates, growth rates and hence exchange rates
C. Balance of payment figures, manufacturing indices and hence exchange rates
D. All of the above and hence exchange rates

Ans: (D)

Q12. Which of the following statements is correct?

A. Increase in inflation rates leads to strengthening of INR
B. Increase in growth rate (GDP), leads to weakening of INR
C. Decrease in manufacturing output lead to strengthening of INR
D. Increase in interest rates could lead to strengthening INR

Ans: (D)

Q13. Derivatives are settled at....

A. Cost
B. A future date
C. An exchange
D. A bank

Ans: (B)

Q14. The underlying for Currency Futures Contract in India is....

A. Gold prices
B. Crude oil prices
C. Interest rates
D. None of the above

Ans: (D)

Q15. One difference between a Forward and future contracts is....

A. Future contracts are customized and forwards are standardized contracts
B. Forwards are customized and futures contracts are standardized
C. Forwards are standardized but with settlement taking place on a specified date
D. None of the above

Ans: (B)

Q16. Call options...

A. Give the buyer of the option the right to sell the given quantity of the underlying asset
B. Gives the seller of the option the right to buy the given quantity of the underlying asset
C. Gives the buyer of the option the right to buy the given quantity of the underlying
D. Gives the seller of the option the right to sell the given quantity of the underlying

Ans: (C)

Q17. Two commonly used SWAPs are....

A. Currency swaps and commodity swaps
B. Currency swaps and equity swaps
C. Currency swaps and interest rate swaps
D. Interest rate swaps and commodity swaps

Ans: (C)

Q18. Hedgers are those..

A. Who are betting on the prices movements
B. Who are indifferent to price movement
C. Who make profits when prices fall
D. Who make profits when prices rise

Ans: (B)

Q19. Economic functions performed by a derivatives market are.....

A. Price discovery
B. Price risk management
C. Risk transfer mechanism
D. All of the above

Ans: (D)

Q20. Derivative markets help in.....

A. Increase savings in the long run
B. Increasing speculation

C. Eliminating risk
D. Improving the countries financial image

Ans: (A)

Q21. Over the Counter contracts (OTC) are....

A. Exchange traded
B. Traded on an international exchange
C. Negotiated derivative contracts
D. All of the above

Ans: (C)

Q22. A tick value is....

A. The value determined by the exchange
B. The value movement between the entry and exit time on the contract
C. The minimum trading price differential at which traders are able to enter bids and offers
D. None of the above

Ans: (C)

Pricing of Currency Futures

Q23. Suppose on 1st June 2009, the USD/INR spot rate is at Rs 43.50, the interest rate in the base currency and terms currency is 3% and 6% respectively. What would be the futures price if the contract has 90 days to its expiry? (USING TERM BASE FORMULA)

A. Rs 43.8328 per USD
B. Rs 43.8238 per USD
C. Rs 438.238 per USD
D. Rs 4.2823 per USD

Ans: (B)

Q24. Suppose on 3rd August 2009, the USD/INR spot rate is at Rs 47.50, the interest rate in the USD and INR currency is 4% and 6% respectively. What would be the futures price if the contract has 90 days to its expiry?

A. Rs 47.7531 per USD
B. Rs 477.35 per USD

C. Rs 47.7351 per USD
D. Rs 4.2823 per USD

Ans: (C)

Q25. If the USD/INR spot rate is currently at Rs 48.50, the futures price is at Rs 48.9754, the interest rate in United States and India is 4% and 6% respectively. What would be the number of days to expiry of the contract?

A. 90 days
B. 181 days
C. 270 days
D. 180 days

Ans: (C)

Q26. If Futures price is equal to Spot + Points.
Suppose the USD/INR spot rate is currently at Rs 48.1150, the interest rate in the base currency and terms currency is 3.5% and 6% respectively. What would be the points, if the contract has 90 days to its expiry?

A. 2.981
B. 0.3085
C. 0.029851
D. 0.2981

Ans: (D)

Q27. On 3rd August 2009, the USD/INR spot rate at Rs 47.93, the futures price is at Rs 48.6422, the interest rate in INR is 6%. What would be the interest rate in USD if the contract has 181 days to its expiry?

A. 3%
B. 3.55%
C. 2.89%
D. 4%

Ans: (A)

Q28. Deriving forward rates given the spot is...

A. Possible using a Term base formula
B. Possible using spot-forward r&p formula
C. Possible using continuous compounding formula
D. All of the above

Ans: (D)

Strategies Using Currencies

Q.1. Which of the following statement is true?

A. Speculators are those who transfer risk
B. Long speculators are those who buy futures without any exposure in the cash market
C. Long speculators are those who buy futures with some exposure in the cash market
D. None of the above

Ans: (B)

Q.2 If a trader is of a view that INR will appreciate; he will _________ USDINR future contract

A. Buy
B. Sell
C. Both A and B
D. None of the above

Ans: (B)

Q.3. Mr. R sells 5 tons of Aluminium for USD 7000 per ton to Mr. T; when exchange rate was Rs. 49/USD. Two month later, he decides to square off his position and the exchange rate by then had changed to Rs. 47.5/USD. The profit or loss of Mr. R would be

A. Profit of Rs. 10500
B. Loss of Rs. 10500
C. Profit of Rs. 52500
D. Loss of Rs. 52500

Ans: (C)

Q.4. An Indian Exporter wants to go for an equal hedge position with an exposure of $10000; will be going

A. Long on 10 USD/INR Futures Contracts
B. Short on 100 USD/INR Futures Contracts
C. Short on 10 USD/INR Futures Contracts
D. None of the above

Ans: (C)

Q.5. On 3rd September an exporter is expecting a payment of $100000 after 2 months and he decides to sell (short) the same in currency futures market. The standard deviation of change in USD/INR spot prices and standard deviation of change in USD/INR future prices over 2 month period is 1.25 and 0.73 respectively and the correlation between the cash and future price of USD/INR for 2 months is 0.57. What is the optimal hedge for him?

A. **Short on 98 USD/INR Futures Contracts**
B. **Long on 97 USD/INR Futures Contracts**
C. **Short on 98 USD/INR Futures Contracts**
D. **Long on 97 USD/INR Futures Contracts**

Ans: (C)

Q.6. On January 1, 2009, an Indian importer enters into a contract to import 2000 barrels of oil with payment to be made in US Dollar on July 1, 2009. The price of oil has been fixed at USD 80/Barrel at the prevailing rate of 1 USD = INR 41.6. July currency futures contract on January 1 is trading at 41.95 and the contract expires at 43.5. What position he has to take in future and how much profit/loss he makes.

A. **Long, Profit Rs. 56333**
B. **Long, Loss Rs. 56000**
C. **Short, Profit Rs. 56500**
D. **Short, Loss Rs. 56300**

Ans: (B)

Q.7. On June1, 2009, an Indian refiner enters in a contract to export 2000 barrels of oil with payment to be received in US Dollar on Sept 1, 2009. The price of oil has been fixed at USD 80/Barrel at the prevailing rate of 1 USD = INR 43.21. September currency futures contract on June 1 is trading at 43.75 and the contract expires at 42.5. What position he has to take in future and how much profit/loss he makes

A. **Long, Profit Rs. 86400**
B. **Long, Loss Rs. 86500**
C. **Short, Profit Rs. 86400**
D. **Short, Loss Rs. 86400**

Ans: (C)

Q.8. On 1st Jan, 2007 a student enrolled for CMT-USA October 2007 test and he needs to make his payment of USD 5000 on 15th June, 2007. The USD/INR rate has been fixed at 42.30 when he got enrolled. June currency futures contract on 1st Jan was trading at 42.70. On 15th June when he has to make the payment the spot price

was 45.00 and price of USDINR futures contract was 45.50. What position he has to take in future and how much profit/loss he makes.

A. **Long, Profit Rs. 500**
B. **Long, Loss Rs. 500**
C. **Short, Profit Rs. 500**
D. **Short, Loss Rs. 500**

Ans: (A)

Q.9. Mr. X, an active stock market investor decides to invest (Buy) USD 250000 for a period of 6 month in S&P 500. The spot USD/INR rate at that time was 48.25 and currency futures rate was.48.65. After 6 months, the market moves as per his expectation and his investment goes up by 15 %. If spot USD/INR exchange rate moves to 45.46 and currency futures rate moves to 45.95, what position he has to take in futures contracts and how much profit/loss he makes.

A. **Long, Profit Rs. 1785300**
B. **Long, Loss Rs. 1753800**
C. **Short, Profit Rs. 1783500**
D. **Short, Loss Rs. 1753800**

Ans: (C)

Q.10. A Spread is __________________.

A. **Difference between opening price and closing price of the future contract**
B. **Difference between cash price and futures price of an asset**
C. **Difference between prices of two futures contracts**
D. **Difference between highest and lowest price of the futures contract**

Ans: (C)

Q.11. Riskless profit objective can be achieved by

A. **Speculation**
B. **Arbitrage**
C. **Hedging**
D. **None of the above**

Ans: (B)

Q.12.The forward price for USD/INR is 44.58 and future price for USD/INR is 45.10, calculate the arbitrage profit or loss on 88 contracts (1lot = 1000 USD) if the expiry price is 45.02.

A. **38720**
B. **42670**
C. **45760**
D. **None of the above**

Ans: (C)

Trading, Clearing & Settlement

Q.1. The maximum number of futures contract available in the trading system for USD INR currency futures are __________.

A. 6
B. 12
C. 3
D. 16

Ans: (B)

Q2. The last trading in the currency futures contract is_________

A. expiry day of the contract
B. two working days prior to the last working day
C. both A & B
D. none of the above

Ans: (C)

Q3. The settlement reference rate for the currency futures contract is ____________

A. weighted average of all trades done in last 30 minutes
B. weighted average of all trades done in last 5 minute
C. weighted average of last 5 trades
D. RBI reference rate of expiry day

Ans: (D)

Q4. The base price for the newly launched currency futures contract is_____________

A. The theoretical futures price
B. RBI reference rate of last 30 minute
C. weighted average of all trades done in last 5 minutes

D. weighted average of all trades done in last 30 minutes

Ans: (A)

Q5. Which of the following statement is least accurate?

A. Expiry day of the contract is the last working day
B. Expiry day is the last trading of the contract
C. Final settlement day is the last working day of the month
D. None of the above

Ans: (A)

Q6. Which of the following statement is least accurate?

A. Final settlement rate is the weighted average of all trades done in last 30 minutes
B. Final settlement rate is RBI reference rate of last trading day
C. Both A &B
D. None of the above

Ans: (A)

Q7. Which of the following statement is most accurate?

A. Expiry day of the contract is the last working day
B. Expiry day is the last working day of the month
C. Final settlement day is the last working day of the month
D. None of the above

Ans: (C)

Q8. Day order is____________

A. Valid in the system till end of the day (if not executed)
B. Not valid in the system till end of the day (if not executed)
C. Valid in the system till expiry of the contract (if not executed)
D. None of the above

Ans: (A)

Q9. In case of sell stop loss the trigger price is _____________ the limit price

A. less than
B. more than
C. more than or equal to
D. less than or equal to

Ans: (C)

Q10. The maximum Mark to Market loss limit for currency futures is ________

A. 75% of total deposits
B. 100% of total deposits
C. 60% of total deposits
D. 90% of total deposits

Ans: (A)

Q11. Every time the Mark to Market loss amount goes beyond the level of ________ & ____ the member gets a warning signal

A. 60%, 70% & 90%
B. 60%, 75% & 90%
C. 60%, 75% & 100%
D. 75 % of total deposit

Ans: (B)

Q12. Positions limits is a function of _____________

A. Volume
B. Price
C. Open Interest
D. Net profit

Ans: (C)

Q13. Trading member "A" has two clients X & Y. Mr. X buys 20 contracts and sell 30 contract while Mr. Y buys 30 contract and sell 20 contract during the day What is open position at member's level?

A. 20 contracts
B. 50 contract
C. 100 contract
D. Nil

Ans: (A)

Q14. Trading member "A" has his proprietary position as 50 buys and 60 sells whereas his client X has 50 Buys and 60 Sells. What is the open position at members' level?

A. Nil
B. 40 Contracts
C. 20 contracts
D. 220 contracts

Ans: (C)

Q15. Which of the following statement is least accurate?

A. MTM is Mark to Market
B. MTM is settled on T + 1 basis
C. MTM is only related to booked profit / loss
D. None of the above

Ans: (C)

Q16. On 1st Jan Mr. X buys 10 contract of USD INR currency futures @ 44.0100 & the closing price of the Currency futures contract comes to 44.1000. Calculate his MTM profit / loss considering that he has not squared off his position?

A. Profit of Rs. 900/-
B. Loss of Rs. 900/-
C. Profit of Rs. 9,000/-
D. Loss of Rs. 9,000/-

Ans: (A)

Q17. On 1st Jan Mr. X buys 10 contract of USD INR currency futures @ 44.11 & the settlement price of the Currency futures contract comes to 44.1000. Calculate his profit / loss?

A. Profit of Rs. 100/-
B. Loss of Rs. 100/-
C. Profit of Rs. 1,000/-
D. Loss of Rs. 1,000/-

Ans: (B)

Q18. The minimum liquid net worth for TM required at any given point on time is ___________

A. 50 Lakhs

B. 25 Lakhs
C. 75 Lakhs
D. 100 Lakhs

Ans: (A)

Q19. The operating range for Currency futures is +/-________ of the base price for contract tenure greater than 6 months

A. 2%
B. 3%
C. 4%
D. 5%

Ans: (D)

Regulatory Framework for Currency Derivatives

Q.1. __________ of Securities Contract (Regulation) Act, 1956 permits a person resident in India to enter into currency futures.

A. Section 1
B. Section 2
C. Section 3
D. Section 4

Ans: (D)

Q.2. The regulator for foreign currency futures trading in India is ________

A. The Forward Market Commission
B. The Reserve Bank of India
C. Securities and Exchange Board of India
D. Ministry of Finance

Ans: (C)

Q.3. Which of the following entities are not eligible to apply for membership?

A. Corporations, Companies or Institutions
B. Individuals
C. Partnership firms registered under the Indian Partnership Act,1952
D. Such other person as may be permitted under the Securities Contracts (Regulation) Rules 1957.

Ans: (C)

Q.4. To start currency derivative trading, an exchange should have at least __________ members.

A. 25
B. 50
C. 75
D. 100

Ans: (B)

Q.5. To become the member of the exchange, banks should have minimum net worth of _________.

A. Rs.100 crores
B. Rs.500 crores
C. Rs.250 crores
D. Rs.1000 crores

Ans: (B)

Q.6. Which of the following statement is correct?

A. The exchange shall have a balance sheet net worth of at least Rs.500 crores.
B. If Trading Member/Clearing Member is chairman of the Governing Council of The Exchange, then he shall not carry on any trading/clearing business on any Exchange during his tenure as chairman.
C. FIIs and NRIs are permitted to participate in currency future market.
D. Both A & B

Ans: (B)

Q.7. Which of the following persons are eligible to become Professional Clearing Member (PCM):

A. Banks
B. SEBI Registered custodians and Individuals
C. Individuals
D. Both A and B

Ans: (A)
Q.8. Which of the followings are the eligibility criteria for bank to become a member:

A. Minimum CRAR of 10 per cent

B. Net NPA should not exceed 5 per cent
C. Made net profit for last 5 years
D. All of the above

Ans: (A)

Accounting & Code of Conduct

Q.1. Accounting for currency derivative transactions on the balance sheet date would______

A. Require existing positions to be terminated
B. Require to disclose as notes to the accounts
C. Require a mention in the Director's report
D. Require tax to be paid on all open positions

Ans: (B)

Q.2. "Marked to Market margin – currency futures " Account shows______

A. Daily profit or loss on open position of the futures
B. Latest net position daily since inception of the contract
C. On balance sheet date will not appear in balance sheet.
D. Above (A) and (B)

Ans: (D)

Q.3. Derivative transaction – which is settled without delivery – however carried out on recognised stock exchange is considered______ as per Income Tax Act

A. Speculative transaction
B. Non speculative transaction
C. Gambling transaction
D. Investment decision

Ans: (B)

Q.4. Loss on speculative transaction cannot be set off against the profit of non speculative transaction

A. True
B. False
C. It depends on SEBI
D. None of the above

Ans: (A)

Q.5. Loss on non speculative transaction which remains after set off against profit on non speculative transactions, can be set off against other business income also.

- **A. False**
- **B. True**
- **C. It depends on SEBI**
- **D. None of the above**

Ans: (B)

Q.6. Code of conduct are rules and guidelines for_______

- **A. Brokers**
- **B. Sub brokers**
- **C. ETCF Trading Members specifically**
- **D. All of the above**

Ans: (D)

Q.7. Broker has following duties toward the client:

- **A. Fairness to the client**
- **B. Not to trade on client's behalf in his account without authorization**
- **C. Issue of contract note**
- **D. All of the above**

Ans: (D)

Q.8. Investors grievances are redressed by the Exchange through

- **A. A systematic process of managing investors grievances by Exchanges regularly reviewed by SEBI**
- **B. The Exchange imperative as how it wants to deal with them**
- **C. A systematic mechanism of Arbitration at every Exchange to deal with these complaints**
- **D. A and C**

Ans: (D)

Q.9. Code of conduct for Brokers:

- ***A. Is part of SEBI regulations***
- ***B. Must be adhered to by the brokers***

C. It is only a recommendatory in nature – brokers have choice
D. A and B

Ans: (D)