LE Exam QB Paper 9

2CEXAM Mock Question
Licensing Examination Paper 9

17-Nov-16

11:35:19

1	When does novation occur?	Hot	✔
A	Before the trade.	Topic	1
B	Automatically after a trade.	Chapter	1
C	At the time of settlement.	Section	2.1
D	After the trade has been registered with the exchange's clearing house.	QID	5
		Answer	D

2	Listed futures in Hong Kong are traded through which of the following system?	Hot	✔
A	DCASS	Topic	1
B	CCASS	Chapter	1
C	AMS3	Section	4.4
D	HKATS	QID	440
		Answer	D

3	Mr Ko has bought 10 at the money call option from the market, Mr Ko is most likely	Hot	✔
A	Speculating	Topic	1
B	Arbitrage	Chapter	4
C	Stop Loss	Section	2
D	Hedging	QID	428
		Answer	A

4	Its very hard to arbitrarge listed stocks in Hong Kong and listed stocks in the US, the most important reaso being	Hot	✔
A	There differences in the legal system	Topic	1
B	The differences in the taxation system.	Chapter	4
C	The difference in the currency being used.	Section	3
D	The difference in Time Zone.	QID	1762
		Answer	D

5	27th Dec 2021 is a Monday, the last trading day of Hang Seng Index Futures contract for the month is?	Hot	✔
A	Tuesday	Topic	2
B	Wednesday	Chapter	1
C	Thursday	Section	1.1
D	Friady	QID	36
		Answer	C

6	Today is 1st June 2017, Mr Ko is a fund manger of Kao Xiong Fund, Kao Xiong Fund is currently holding 300 million worth of Hong Kong Shares. Mr Ko is worried because he believed the shares that Kao Xiong Fund is holding will fall significantly within the month. Therefore, he decides to use futures contract to hedge. The price of Hang Seng Index Futures for Jun 2017 I currently trading at 18000 pts. How many contracts does Mr Ko need to sell in order to hedge the risk?	Hot	✔
A	444	Topic	2
B	333	Chapter	1
C	8 million contracts	Section	2
D	800	QID	41
		Answer	B

7	Today is 1st June 2017, Mr Ko is a fund manger of Kao Xiong Fund, Kao Xiong Fund is currently holding 300 million worth of Hong Kong Shares. Mr Ko is worried because he believed the shares that Kao Xiong Fund is holding will fall significantly within the month. Therefore, he decides to use futures contract to hedge, he should?	Hot	✔
A	Buy June 2017 Hang Seng Index Futures Contract	Topic	2
B	Buy July 2017 Hang Seng Index Futures Contract	Chapter	1
C	Sell July 2017 Hang Seng Index Futures Contract	Section	2
D	Sell Jun 2017 Hang Seng Index Futures Contract	QID	42
		Answer	D

8	Mr Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently had a bearish view on Hong Kong Stock indexes, thererfore he sold one Jun 2016 Hang Seng Index Futures Contract at the price of 23500 points when the spot of Hang Seng Index was trading at 24000 points. Since his communication with his spouse Mrs. Ko was very bad, Mrs Ko bought 1 million worth of Hang Seng Index Constituents at the time Mr. Ko sold futures. At the end of Jun 2016, the settlement price for Hang Seng Index Futures Contract is 21050 and the spot price for Hang Seng Index closed at 21000. What is Mr Ko's profit?	Hot	✔
A	$125000 worth of profit	Topic	2
B	$875000 worth of profit	Chapter	1
C	$122500 worth of profit	Section	3
D	$120000 worth of profit	QID	297
		Answer	C

9	Mr Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently had a bearish view on Hong Kong Stock indexes, thererfore he sold one Jun 2016 Hang Seng Index Futures Contract at the price of 23500 points when the spot of Hang Seng Index was trading at 24000 points. Since his communication with his spouse Mrs. Ko was very bad, Mrs Ko bought 1 million worth of Hang Seng Index Constituents at the time Mr. Ko sold futures. At the end of Jun 2016, the settlement price for Hang Seng Index Futures Contract is 21050 and the spot price for Hang Seng Index closed at 21000. What is Mrs. Ko's loss?	Hot	✔
A	$125000	Topic	2
B	$875000	Chapter	1
C	$122500	Section	3
D	$120000	QID	296
		Answer	A

10	Mr Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently had a bullish view on Hong Kong Stock indexes, thererfore he bought one hundred Jun 2016 Hang Seng Index Futures Contract at the price of 23500 points when the spot of Hang Seng Index was trading at 24000 points. Since his communication with his spouse At the end of Jun 2016, the settlement price for Hang Seng Index Futures Contract is 21050 and the spot price for Hang Seng Index closed at 21000. What is Mr. Ko's loss?	Hot	✔
A	$122500	Topic	2
B	$12250000	Chapter	1
C	$150000	Section	3
D	$15000000	QID	295
		Answer	B

11	Mr Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently had a bearish view on Hong Kong Stock indexes, thererfore he sold ten Hang Seng Index Futures Contract at the price of 18000 points. Two days later, the price of Hang Seng Index Futures Contract rose to 25000 points. If Mr. Ko closed out his position, what will be his profit/loss?	Hot	✔
A	$350000 worth of profit	Topic	2
B	$70000 worth of profit	Chapter	1
C	$3500000 worth of profit	Section	3
D	$3500000 worth of loss	QID	47
		Answer	D

12	M.D. Yu is very intelligent with brilliant track record in the futures market. She has $1.5 million of liquid capital. Today is 1st March, the Hang Seng Index Futures is trading at 20000 points. The initial margin for trading is $150000 per contract and the benchmark interest rate is 5%. The Hang Seng Index Call Option with a strike of 22000 is trading at 100 pts and the Hang Seng Index Put Option with a strike of 18000 is trading at 100 pts. If M.D. Yu believes that the market will move upwards rapidly by month end but do not want to take risks, how can she take advantage of the up tick yet protecting her principal?	Hot	✔
A	Buy 10 Hang Seng Index Futures Contract and save the residuals in the Bank.	Topic	2
B	Buy 10 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank.	Chapter	1
C	Buy 10 Hang Seng Index Put Option with a strike of 22000 and save the residuals in the Bank.	Section	3
D	Buy 1 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank.	QID	48
		Answer	D

13	Which of the following instrument cannot hedge against interest rate increase?	Hot	✔
A	Selling bond futures.	Topic	2
B	Buying a cap on interest rate.	Chapter	2
C	Selling HIBOR Futures.	Section	3
D	Becoming the paying party of a forward rate agreement	QID	58
		Answer	D

14	Vita Milk can borrow from the bank under at 6% fixed rate of H+0.5% floating rate. All Things Cola can borrow from the bank under at 5% fixed rate of H+0% floating rate. The CFO of Vita Milk believed that the interest rate will increase in the near future, therefore they enter into a swap agreement with All Things Cola. Vita Milk should pay All Things Cola a fixed rate of 5.25% whilst reciving H+0% floating rate from All Things Cola. The parties only swap the difference between the fixed rate and the floating rate referenced. If H is standing at 6% now, who should make payments to whom?	Hot	✔
A	Vita Milk should pay All Things Cola 5.25% and All Things Cola should pay Vita Milk H+0%.	Topic	2
B	All Things Cola should pay Vita Milk 5.25% and Vita Milk should pay All Things Cola H+0%.	Chapter	3
C	Vita Milk should pay All Things Cola H+0.5%	Section	2
D	All Things Cola should pay Vita Milk 0.75%	QID	75
		Answer	D

15	Vita Milk can borrow from the bank under at 6% fixed rate of H+0.5% floating rate. All Things Cola can borrow from the bank under at 5% fixed rate of H+0% floating rate. The CFO of Vita Milk believed that the interest rate will increase in the near future, therefore they enter into a swap agreement with All Things Cola. If H is standing at 6% now, how should they proceed with the swap in order to reduce borrowing cost?	Hot	✔
A	Vita Milk should borrowing floating rate from the bank at H+0.5% and All Things Cola should borrow fixed rate from the bank at 5%. Then they should enter into a swap, Vita Milk should pay All Things Cola a fixed rate of 5.25% whilst reciving H+0% floating rate from All Things Cola. The parties only swap the difference between the fixed rate and the floating rate referenced.	Topic	2
B	Vita Milk should borrowing floating rate from the bank at H+0.5% and All Things Cola should borrow fixed rate from the bank at 5%. Then they should enter into a swap, Vita Milk should pay All Things Cola a fixed rate of 5.25% whilst reciving H+0% floating rate from All Things Cola.	Chapter	3
C	Vita Milk should borrowing floating rate from the bank at H+0.5% and All Things Cola should borrow fixed rate from the bank at 5%. Then they should enter into a swap, Vita Milk should pay All Things Cola a fixed rate of 6.25% whilst reciving H+0% floating rate from All Things Cola. The parties only swap the principal of the loan.	Section	2
D	All Things Cola should borrowing floating rate from the bank at H+0.5% and Vita Milk should borrow fixed rate from the bank at 5%. Then they should enter into a swap, All Thigns Cola should pay Vita Milk a fixed rate of 5.25% whilst reciving H+0% floating rate from Vita Milk.	QID	74
		Answer	A

16	Vita Milk is a local beverage manufacturer with very good credit. It can borrow from the bank at 5% fixed or H+0.5% floating. Big Lemon Coke is a local fastfood chain, because they are involved in political events, their credibility was damaged. They can only borrow from the bank at 10% fixed or H+3% floating. Assuming Vita Milk want to borrow at a floating rate and Big Lemon Coke want to borrow at a fixed rate, which of the following swap can benefit them mutually?	Hot	✔
A	Vita Milk pay H+0% to Big Lemon Coke and Big Lemon Coke pays 8% to Vita Milk.	Topic	2
B	Vita Milk pay H+0.75% to Big Lemon Coke and Big Lemon Coke pays 7.5% to Vita Milk.	Chapter	3
C	Big Lemon Coke pay H-0.75% to Vita Milk and Vita Milk pays 8.75% to Big Lemon Coke.	Section	2
D	Vita Milk pay H+0.5% to Big Lemon Coke and Big Lemon Coke pays 10% to Vita Milk.	QID	66
		Answer	B

17	Vita Milk is a local beverage manufacturer with very good credit. It is now borrowing 30 million from Tiger Bank at a floating. Big Lemon Coke is a local fastfood chain. Vita Milk wants to turn its floating rate borrowing into fixed rate borrowing by entering into a swap with Big Lemon Coke. Amid of its good credibility, Vita Milk can borrow Fixed at H+0.25% or floating at H+0.15%. Big Lemon Coke can borrow Fixed at H+0.15% or floating at H+0.45%. If they enter into a swap, what is the maximum amount of borrowing cost that both parties can save in total?	Hot	✔
A	0.2%	Topic	2
B	0.4%	Chapter	3
C	0.45%	Section	2
D	0.25%	QID	71
		Answer	A

18	Pharoh Trading and Emperor Qin Trading is entering into a swap to save borrowing cost. They both need tc borrow 100 million for 10 years for business expansion. Pharoh Trading wants to borrow floating and Emperor Qin wants to borrow fixed, these are the borrowing cost of the two companies Pharoh Trading / Emperor Qin Fixed: 5% / 8% Floating: H+1% / H+1.5% Which of the following swap can benefit them mutually?	Hot	✔
A	Pharoh pays Emperor Qin floating of H+1.5% and Emperor Qin pays Pharoh 7%	Topic	2
B	Pharoh pays Emperor Qin fixed of 6% and Pharoh pays Emperor Qin H+3%	Chapter	3
C	Pharoh pays Emperor Qin floating of H+1% and Emperor Qin pays Pharoh 8%	Section	2
D	They cannot save any interest by entering into a swap.	QID	426
		Answer	A

19	The buyer of a put option has	Hot	✔
A	The obligation, in the event of the option being exercised, to buy an asset at a specified price. Risk is limited.	Topic	2
B	The obligation, in the event of the option being exercised, to sell an asset at a specified price. Risk is unlimited.	Chapter	4
C	The right, but not the obligation, to sell an asset at a specified price. The risk is limited to the premium paic	Section	
D	The right, but not the obligation, to buy an asset at a specified price. The risk is limited to the premium pai	QID	78
		Answer	C

20	The buyer of a call option has	Hot	✔
A	The obligation, in the event of the option being exercised, to buy an asset at a specified price. Risk is limited.	Topic	2
B	The obligation, in the event of the option being exercised, to sell an asset at a specified price. Risk is unlimited.	Chapter	4
C	The right, but not the obligation, to sell an asset at a specified price. The risk is limited to the premium paic	Section	
D	The right, but not the obligation, to buy an asset at a specified price. The risk is limited to the premium pai	QID	81
		Answer	D

21	The seller of a put option has	Hot	✔
A	The obligation, in the event of the option being exercised, to buy an asset at a specified price. Risk is limited.	Topic	2
B	The obligation, in the event of the option being exercised, to sell an asset at a specified price. Risk is unlimited.	Chapter	4
C	The right, but not the obligation, to sell an asset at a specified price. The risk is limited to the premium pai	Section	
D	The right, but not the obligation, to buy an asset at a specified price. The risk is limited to the premium pai	QID	82
		Answer	A

22	The seller of a call option has	Hot	✔
A	The obligation, in the event of the option being exercised, to buy an asset at a specified price. Risk is limited.	Topic	2
B	The obligation, in the event of the option being exercised, to sell an asset at a specified price. Risk is unlimited.	Chapter	4
C	The right, but not the obligation, to sell an asset at a specified price. The risk is limited to the premium pai	Section	
D	The right, but not the obligation, to buy an asset at a specified price. The risk is limited to the premium pai	QID	83
		Answer	B

23	Mr Ho is a patriot. He is angered by speculators who speculate on the Chinese economy with evil intentions. Based on his patriotism, he bought a lot of Hang Seng Index Call Options and hope that his actions will punish evil speculators. The strike of these Hang Seng Index Call Options is 20000 points. Based on the trades that Mr. Ho executed, is his profit potential limited?	Hot	✔
A	Yes, because Mr. Ho is the buyer of call options, therefore his profit potential is unlimited.	Topic	2
B	Yes, because Mr. Ho is the buyer of call options and is principal protected, therefore his profit potential is unlimited.	Chapter	4
C	No. Despite the fact that Mr. Ho is the buyer of call option, he still need to pay premium, therefore his profit potential is not unlimited.	Section	1.2
D	No. Since Mr. Ho is the buyer of a call option, his maxium profit is limited to the premium paid.	QID	803
		Answer	A

24	Time value is	Hot	✔
A	Asset price minus strike price.	Topic	2
B	Strike price minus asset price.	Chapter	4
C	Premium minus intrinsic value.	Section	1.4
D	Premium plus intrinsic value.	QID	92
		Answer	C

25	If the volatility and price of Vita Milk Shares rose rapidly, which of the following instrument or strategy must rise in value?	Hot	✔
A	Long Call	Topic	2
B	Long Put	Chapter	4
C	Short Straddle	Section	1.4
D	Long Straddle	QID	95
		Answer	A

26	Which of the following conditions will result in a higher premium for put option? I. A longer time to expiry II. Lower Interest Rate III. Lower Dividend IV. Higher Strike Price	Hot	✔
A	I, II, III	Topic	2
B	II, III, IV	Chapter	4
C	I, II, IV	Section	1.4
D	I, II, III, IV	QID	93
		Answer	C

27	Which of the following conditions will result in a higher premium for call option? I. A longer time to expiry II. Higher Interest Rate III. Lower Dividend IV. Lower Strike Price	Hot	✔
A	I, II, III	Topic	2
B	II, III, IV	Chapter	4
C	I, II, IV	Section	1.4
D	I, II, III, IV	QID	91
		Answer	D

28	Which of the following condition might result in a lower premium for put option?	Hot	✔
A	Longer time to expiry	Topic	2
B	Higher interest rate	Chapter	4
C	Higher dividend	Section	1.4
D	Higher strike price	QID	90
		Answer	B

29	M.D. Yu is very intelligent with brilliant track record in the futures market. She has $1.5 million of liquid capital. Today is 1st March, the Hang Seng Index Futures is trading at 20000 points. The initial margin for trading is $150000 per contract and the benchmark interest rate is 5%. The Hang Seng Index Call Option with a strike of 22000 is trading at 100 pts and the Hang Seng Index Put Option with a strike of 18000 is trading at 100 pts. If M.D. Yu believes that the market will move upwards rapidly by month end and do not mind to take great risk, she is willing to bet the farm on the trade, which of the following strategies should she employ?	Hot	✔
A	Buy 10 Hang Seng Index Futures Contract and save the residuals in the Bank.	Topic	2
B	Buy 10 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank	Chapter	4
C	Buy 10 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank	Section	1.4
D	Buy 1 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank.	QID	89
		Answer	A

30	If the volatility and price of an asset rose rapidly, what will happen to the options of this asset?	Hot	✔
A	Call options can be in the money or out of the money, the intrinsic value of put option will increase.	Topic	2
B	Put options cannot be in the money, the intrinsic value of call options will decrease.	Chapter	4
C	Call options cannot be out of the money, the intrinsic value of put options will decrease.	Section	1.4
D	Put options can be in the money or out of the money, the intrinsic value of call option will increase.	QID	88
		Answer	D

31	If the volatility and price of Vita Milk Shares rose rapidly, which of the following instrument or strategy might fall in value? I. Long Call II. Long Put III. Short straddle IV. Long straddle	Hot	✔
A	I, II, III	Topic	2
B	II, III	Chapter	4
C	I, IV	Section	1.4
D	I, II, III, IV	QID	87
		Answer	B

32	M.D. Yu is very intelligent with brilliant track record in the futures market. She has $1.5 million of liquid capital. Today is 1st March, the Hang Seng Index Futures is trading at 20000 points. The initial margin for trading is $150000 per contract and the benchmark interest rate is 5%. The Hang Seng Index Call Option with a strike of 22000 is trading at 100 pts and the Hang Seng Index Put Option with a strike of 18000 is trading at 100 pts. If M.D. Yu believes that the market will fall rapidly by month end and do not mind to take great risk, she is willing to bet the farm on the trade, which of the following strategies should she employ?	Hot	✔
A	Buy 10 Hang Seng Index Futures Contract and save the residuals in the Bank.	Topic	2
B	Buy 10 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank.	Chapter	4
C	Buy 10 Hang Seng Index Put Option with a strike of 1800 and save the residuals in the Bank.	Section	1.4
D	Buy 1 Hang Seng Index Call Option with a strike of 22000 and save the residuals in the Bank.	QID	86
		Answer	C

33	Which of the following condition will result in lower premium for call option?	Hot	✔
A	Longer time to expiry.	Topic	2
B	Higher interest rate.	Chapter	4
C	Higher dividend.	Section	1.4
D	Lower strike price.	QID	85
		Answer	C

34	Intrinsic value is	Hot	✔
A	The difference between futures price and spot price.	Topic	2
B	The difference between settlement price and option strike price.	Chapter	4
C	The difference between option strike price and spot price.	Section	1.4
D	The difference between option strike price and settlement price.	QID	94
		Answer	C

35	Which of the followings are exotic options? I. Barrier Options II. Compound Options III. Lookback Options IV. Average rate (or Asian) options	Hot	✔
A	I, II, III	Topic	2
B	II, III, IV	Chapter	4
C	I, II, IV	Section	2.2
D	I, II, III, IV	QID	96
		Answer	D

36	Mr. Ko just sold a Vita Milk Put option with a strike of $20 for a premium of $2. What is Mr. Ko's maximum profit?	Hot	✔
A	$20	Topic	2
B	$2	Chapter	4
C	$18	Section	3
D	Unable to determine	QID	1936
		Answer	B

37	Mr. Ko just sold a Vita Milk Put option with a strike of $20 for a premium of $2. What is Mr. Ko's maximum loss?	Hot	✔
A	$20	Topic	2
B	$19	Chapter	4
C	$18	Section	3
D	$21	QID	1935
		Answer	C

38	Mr Liu bought 10000 shares of Vita Milk at $2 per share. He then sold 10000 call option of Vita Milk with a strike price of $2 for a premium of $0.1. Which of the following best describe Mr Liu's situation?	Hot	✔
A	Mr. Liu's maximum profit is $10000.	Topic	2
B	Mr. Liu's profit is unlimited.	Chapter	4
C	Mr. Liu's maximum profit is $1000.	Section	3
D	Mr. Liu's maximum loss is $1000.	QID	1931
		Answer	C

39	Mr Ko just sold 1000 shares of put options of stock A for a premium of $8 per share, the strike price of the option is $100. What is Mr Ko's maximum Loss?	Hot	✔
A	$92	Topic	2
B	$92000	Chapter	4
C	$9200	Section	3
D	Unlimited	QID	429
		Answer	B

40	Mr Ko bought Hang Seng Index Put Option with a strike of 22000. If he wants to hedge this position, what can he do? I. Buy stocks II. Buy futures III. Sell call option IV. Buy put option	Hot	✔
A	I	Topic	2
B	I, II	Chapter	4
C	I, IV	Section	5
D	II, III	QID	108
		Answer	B

41	Mr Ko sold Hang Seng Index Options put with a strike of 22000 points. If Mr. Ko would like to hedge this position, what can he do? I. Buy Shares II. Sell Futures III. Sell Shares IV. Long Put	Hot	✔
A	I, II, III	Topic	2
B	II, III, IV	Chapter	4
C	I, IV	Section	5
D	II, IV	QID	107
		Answer	B

42	The delta of a Vita Milk put option is -0.25. Mr Ko is currently holding 1000 shares of Vita Milk. In order to hedge his position, how much put option should Mr Ko buy?	Hot	✔
A	1000 shares	Topic	2
B	2500 shares	Chapter	4
C	4000 shares	Section	6.2
D	250 shares	QID	115
		Answer	C

43	Mr. Ko is a passionate futures speculator. If he do not have a directional view of the market, meaning that he does not expect the market to rise and fall. If he would like to generate some premium from options trading with this view in mind, which of the follow strategies can he employ?	Hot	✔
A	Long a straddle	Topic	2
B	Short a straddle	Chapter	5
C	Long call	Section	1
D	Sell put	QID	125
		Answer	B

44	Mr. Ko is a passionate futures speculator. If he believes the market will be volatile in the immediate future, which of the follow strategies can he employ? I. Long Straddle II. Short Straddle III. Long Strangle IV. Short Stangle	Hot	✔
A	I, III	Topic	2
B	II, IV	Chapter	5
C	I, II	Section	1
D	III, IV	QID	124
		Answer	A

45	Mr. Ko is a passionate futures speculator. If he believes the market will not be volatile in the immediate future, which of the follow strategies can he employ? I. Long Straddle II. Short Straddle III. Long Strangle IV. Short Stangle	Hot	✔
A	I, III	Topic	2
B	II, IV	Chapter	5
C	I, II	Section	1
D	III, IV	QID	123
		Answer	B

46	The biggest difference between strangle and straddle is?	Hot	✔
A	The strike price of the options they are long in or short in are different.	Topic	2
B	The type of the options they are long in or short in are different.	Chapter	5
C	The time to expiry of the options they are long in or short in are different.	Section	2
D	The products they long in and short in are different.	QID	132
		Answer	A

47	What is the purpose of selling a call in a call bull spread?	Hot	✔
A	Cost reduction.	Topic	2
B	Leverage reduction.	Chapter	5
C	Profit enhancement.	Section	3.1
D	Retain downward potential	QID	140
		Answer	A

48	What is the purpose of selling a put in a put bear spread?	Hot	✔
A	Cost reduction.	Topic	2
B	Leverage reduction.	Chapter	5
C	Profit enhancement.	Section	3.2
D	Retain downward potential	QID	141
		Answer	A

49	Today is 1st June 2017, Mr Ko is a fund manger of Kao Xiong Fund, Kao Xiong Fund is currently holding 300 million worth of Hong Kong Shares. Mr Ko is worried because he believed the shares that Kao Xiong Fund is holding will fall significantly within the month. Therefore, he decides to buy some put options to hedge the market risk of Hang Seng Index. What is the most possible reason that he chose options instead of futures?	Hot	✔
A	Options offers a greater leverage.	Topic	2
B	Retain upside.	Chapter	5
C	Futures have lower liquidity than options.	Section	4.2
D	Only options can be used to hedge spot.	QID	159
		Answer	B

50	Which of the following is not a characteristic of a futures contract?	Hot	✔
A	Limited downside	Topic	3
B	Unlimited upside	Chapter	1
C	Unlimited downside	Section	
D	Offers leverage	QID	162
		Answer	A

51	Mr. Ko bought Mini Hang Seng Index Futures Contract at 22000 when the spot of Hang Seng Index is at 22200. If the settlement price for Hang Seng Index Futures is 21650 at month end, what will be Mr Ko's loss?	Hot	✔
A	$3500	Topic	3
B	$17500	Chapter	1
C	$350	Section	3
D	$5500	QID	166
		Answer	A

52	To construct an Interest Rate Swap, the parties of the swap need to I. Borrow from a bank before swapping II. Borrow from a bank after swapping III. Exchange the principal IV. Exchange payments based upon the agreed fixed rate and the floating rate reference benchmark.	Hot ✔	
A	I, II, II	Topic	3
B	I, II, III, IV	Chapter	3
C	I, IV	Section	2
D	II, III	QID	183
		Answer	C

53	What is the difference between ELI and EFN?	Hot ✔	
A	ELI always offer a better return than EFN	Topic	3
B	ELI is principal protected if held until maturity whereas EFN might result in losses.	Chapter	4
C	EFN can only invest in foreign markets whereas ELI can invest in local markets.	Section	1
D	ELI invest in stock markets whereas EFN performance is not effected by stock market performance.	QID	185
		Answer	D

54	It's 1st Jun 2017, the Hang Seng Index Spot is at 22000. The dividend yield is at 1% and interest rate is at 2%. The fair value of Jun Hang Seng Index Future should be	Hot ✔	
A	21981	Topic	3
B	21786	Chapter	5
C	22018	Section	2
D	22217	QID	209
		Answer	C

55	It's 1st Jun 2017, the Hang Seng Index Spot is at 22000. The dividend yield is at 1% and interest rate is at 2%. If the Jun Hang Seng Index Future is trading at 21800, how can you arbitrage	Hot ✔	
A	Long Hang Seng Index Futuers Contract and short the spot market	Topic	3
B	Short Hang Seng Index Futuers Contract and long the spot market	Chapter	5
C	Long Hang Seng Index Futuers Contract and Long the spot market	Section	2
D	Short Hang Seng Index Futuers Contract and short the spot market	QID	210
		Answer	A

56	Which of the followings are interest rate derivatives? I. HIBOR futures II. Interest Rate Swap III. Forward Rate Agreement IV. Bond Futures/Options	Hot	✔
A	I, II, III	Topic	4
B	IV	Chapter	
C	I, IV	Section	
D	I, II, III, IV	QID	211
		Answer	D

57	Which of the following is an example of FX Swap?	Hot	✔
A	Mr. Ko sold 2 million USD worth of Japanese Yen and Buy back 2 million USD worth of Japanese Yen a week later.	Topic	5
B	Mr. Ko sold 2 million USD worth of Japanese Yen and Buy back 2 million USD worth of Japanese Yen a week later at the same rate.	Chapter	1
C	Mr. Ko sold 2 million USD worth of Japanese Yen and sold 2 million USD worth of Japanese Yen a week later.	Section	2
D	Tiger Bank sold 2 million USD worth of Japanese Yen and Mr. Ko bought 2 million USD worth of Japanese Yen a week later at the same rate.	QID	239
		Answer	A

58	The parties of a curreny swap will I. Exchange Principal at the start of the swap II. Exchange interest paymenmts during the swap. III. Reversing the exchange of Principal at the end of the swap. IV. Settled the net difference at the end of the swap.	Hot	✔
A	I, II, III	Topic	5
B	IV	Chapter	1
C	I, II, III, IV	Section	3
D	I, III	QID	241
		Answer	A

59	Natural Gas Futures belongs to which type of derivatives?	Hot	✔
A	Resources Derivatives	Topic	5
B	Energy Derivaties	Chapter	1
C	OTC Derivatives	Section	3
D	Futures traded on the FEHK	QID	242
		Answer	B

60	Curreny Swap is	Hot	✔
A	An agreement to exchange liabilities denominated in different currencies.	Topic	5
B	A bundle of fx spot trade and fx forward agreement	Chapter	1
C	An fx agreement that offers the buyer the right (not the obligation) to buy or sell a certain amount of forex at a rate determined at the date of agreement.	Section	3
D	An agreement to buy and sell currencies according to a rate determined at the date of agreement.	QID	244
		Answer	A

61	A platinum producer owns a few platinum mines and is worried that platinum prices will fall. To efffectively hedge platinum price downside risk. Which of the follow method is the most effective and convinient?	Hot	✔
A	Sell platinum forward agreement	Topic	5
B	Sell platinum futures	Chapter	7
C	Entere into a platinum swap	Section	1
D	Long platinum put option	QID	262
		Answer	C

62	A platinum producer owns a few platinum mines and is worried that platinum prices will fall. To efffectively hedge platinum price downside risk, she choses to enter into a platinum swap. What are the advantages of using a swap instead of options? I. Longer validity II. Does not tying-up of capital III. Higher leverage IV. Higher profit potential	Hot	✔
A	I, II	Topic	5
B	I, III, IV	Chapter	7
C	II, III, IV	Section	1
D	I, II, IV	QID	263
		Answer	A

63	A platinum producer owns a few platinum mines and is worried that platinum prices will fall. To efffectively hedge platinum price downside risk. Which of the follow method is the least likely to be employed?	Hot	✔
A	Sell platinum forward agreement	Topic	5
B	Sell platinum futures	Chapter	7
C	Entere into a platinum swap	Section	1
D	Sell platinum put option	QID	261
		Answer	D

64	A logistic company anticipated the taiwan strait to dry up and cause an oil rig to malfunction, resulting in hgiher oil prices. What kind of risk is this?	Hot	✔
A	Pure Risk	Topic	6
B	Market Risk	Chapter	1
C	Liquidity Risk	Section	1.1
D	Credit Risk	QID	422
		Answer	B

65	What are the short comings of shorting futures to hedge falling stock price? I. Forgoing upside potential II. Forgoing dividends III. Basis Risk IV. Settlement Risk	Hot	✔
A	I, II, III	Topic	6
B	II, III, IV	Chapter	1
C	I, IV	Section	1.1
D	I, III	QID	272
		Answer	D

66	Fundamental analysis includes I. Top-down approach II. Bottom-up approach III. Micro analysis IV. Macro analysis	Hot	✔
A	I, II	Topic	6
B	III, IV	Chapter	1
C	I, IV	Section	2.1
D	I, II, III, IV	QID	273
		Answer	A

67	If a fund manager frequently use technical indicators to speculate on futures. This fund manager is more likely to have which of the following beliefs? I. Market behaviors reflect all market information II. Price move in trends III. Price movements are random IV. History repeats itself	Hot	✔
A	I, II, III	Topic	6
B	I, III, IV	Chapter	1
C	I, II, IV	Section	2.2
D	II, III, IV	QID	276
		Answer	C

68	Which of the following is a valid stop loss order?	Hot	✔
A	Investor bought Hang Seng Index Futures Contract at 25000 points and sell Hang Seng Index Futures Contract at 26000 points.	Topic	6
B	Investor sold Hang Seng Index Futures Contract at 25000 points and sell Hang Seng Index Futures Contrac at 26000 points.	Chapter	1
C	Investor sold Hang Seng Index Futures Contract at 26000 points and buy Hang Seng Index Futures Contrac at 26500 points.	Section	3.1
D	Investor sold Hang Seng Index Futures Contract at 26000 points and sell Hang Seng Index Futures Contrac at 26500 points.	QID	280
		Answer	C

69	What are the responsiblities of an intermediary buying and selling futures for clients? I. Ensure clients are given and sign a risk disclosure statement and a client information statement. II. Maintain a a segregated bank account for each of their clients. III. Reporting to HKFE any large open positions held by themselves. IV. Reporting to HKFE any large open positions held by their clients.	Hot	✔
A	I, II, II	Topic	6
B	I, II, IV	Chapter	1
C	I, III, IV	Section	4.9
D	I, II, III, IV	QID	284
		Answer	D

70	Which of the following are margins categories classified by the HKCC? I. Initial Margin II. Maintainence Margin III. Intra-Day Margins IV. Overnight Margins	Hot	✔
A	I, II, III	Topic	6
B	II, III, IV	Chapter	2
C	I, IV	Section	1
D	I, III	QID	288
		Answer	A

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71 Mr. Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently held a bullish view of the Hong Kong stock indexes, he then bought 10 Hang Seng Index Futues Contracts at a price of 18000 points. The initial margin of Hang Seng Index Futues Contracts is $250000 and the maintainence margin is $200000. Mr. Ko had 3 million in his account before the trade, how much residual purchasing power is left after buying the 10 contracts?

Hot ☑

A $500000

B 1 million

C 2 million

D 3 million

Topic	6
Chapter	2
Section	1.1
QID	289
Answer	A

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72 Mr. Ko is a passionate futures speculator and a client of Kaoxiong Futures. He recently held a bullish view of the Hong Kong stock indexes, he then bought 10 Hang Seng Index Futues Contracts at a price of 18000 points. The initial margin of Hang Seng Index Futues Contracts is $250000 and the maintainence margin is $200000. Mr. Ko will receive a margin call if the Hang Seng Index Futures is trading at which of the following levels?

Hot ☑

A 16000 points

B 18000 points

C 20000 points

D Immediately since he does not have enough margin for his account.

Topic	6
Chapter	2
Section	1.2
QID	290
Answer	A

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73 Yellow River Trading and River Nile Trading arrange cash settled sugar futures trade through the futures exchange. Yellow River trading is the seller of the sugar and River Nile is the buyer of the sugar. If both parties held the contract until the last trading day, if River Nile trading incur a loss because of the trade, which of the following statements are true?

Hot ☑

A Yellow River Trading is also having a loss. Yellow River Trading Losses should be deducted from River Niles account.

B Yellow River Trading is making a profit, it has to compensate for River Nile Losses.

C Yellow River Trading is making a profit. River Nile Trading should pay the losses to the clearing house.

D Yellow River Trading is making a profit, River Nile should pay the losses to Yellow River Trading directly

Topic	6
Chapter	3
Section	1.4
QID	425
Answer	C

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74 Which of the following instruments are not settled on T+2?

Hot ☑

A Futures

B Derivative Warrants

C ETFs

D Bonds traded on the SEHK

Topic	6
Chapter	3
Section	1.4
QID	1765
Answer	A

74