

## Quiz

1. Jeanette just purchased a European call on 100 shares of Delta stock. The call has an exercise price of \$30 and an expiration date of June 20. Delta stock is currently trading at \$32 a share. Which one of the following statements is correct concerning this call?

- A. Jeanette can buy 100 shares of Delta stock for \$30 a share anytime between now and June 20.
- B. Jeanette can sell 100 shares of Delta stock for \$30 a share anytime between now and June 20.
- C. Jeanette is obligated to buy 100 shares of Delta stock at \$30 a share if the option is exercised.
- D. Jeanette is obligated to sell 100 shares of Delta stock at \$30 a share if the option is exercised.

**E. Jeanette can purchase 100 shares of Delta stock for \$30 a share only on June 20.**

**European options can only be exercised on the expiration date.**

2. JKL stock is selling for \$43 a share. Which of the following statements are correct concerning an American call option on JKL stock which expires today?

- I. If the exercise price of the option is \$45, the call is in-the money.
- II. The calls with both \$45 and \$50 exercise prices have the same expiration value.
- III. A call with a \$40 exercise price is worth \$3 if exercised today.
- IV. The \$30 call option is worth more than the \$35 call option.

- A. I and II only
- B. II and III only
- C. III and IV only

**D. II, III, and IV only**

- E. I, II, III, and IV

**A call is in-the-money when the price of the underlying stock exceeds the exercise price of the call.** 3. ZX stock is currently selling for \$52 a share. The value of a 3-month American call option on ZX with an exercise price of \$50 a share will:

- A. increase by \$1 if the stock price decreases by \$1.
- B. increase by \$1 if the stock price increases by \$3.
- C. decrease by \$1 if the stock price decreases by \$1.**
- D. decrease by \$5 if the stock price decreases by \$5.
- E. remain constant unless the stock price declines by more than \$2.

**The value of the call will change if the stock price changes by any amount**

4. Marti owns a European call option on SK stock with an exercise price of \$45. She believes that SK stock will either be worth \$40 or \$50 per share on the expiration date. If Marti is correct, her option will either be worth \_\_\_\_\_ or \_\_\_\_\_, respectively, per share of SK stock at expiration.

- A. -\$5; \$0
- B. -\$5; \$5
- C. \$0; \$5**
- D. \$5; \$0
- E. \$5; -\$5

**The call will be worth \$0 if the stock price is \$40 or \$5 if the stock price is \$50.**

5. The buyer of a(n) \_\_\_\_\_ has the right, but not the obligation, to buy an asset on a specified date for a specified price.

- A. American put option
- B. American call option
- C. protective put
- D. European put option

**E. European call option**

**A put grants the right to sell an asset.**

6. The buyer of a(n) \_\_\_\_\_ has the right, but not the obligation, to sell an asset on or before a specified date for a specified price.

**A. American put option**

- B. American call option
- C. protective put
- D. European put option
- E. European call option

**A European option can only be exercised on the expiration date.**

7. CeeCi purchased shares of TK stock for \$21 a share. TK stock is currently selling for \$41 a share. CeeCi does not want to sell her shares of TK as she feels the stock will continue to increase in price until it reaches \$50.

However, CeeCi would like to protect the profits she currently has in the stock. CeeCi should:

- A. buy a call option with an exercise price of \$40.
- B. sell a call option with an exercise price of \$50.
- C. buy a put option with an exercise price of \$40.**
- D. sell a put option with an exercise price of \$40.
- E. buy a call and sell a put, both with exercise prices of \$50.

**CeeCi should buy a put option with an exercise price of \$40.**

8. Rob owns a European put option on MO stock with an exercise price of \$35. At expiration, this put will be worth \_\_\_\_\_ if MO is selling at \$33 a share or \_\_\_\_\_ if MO is selling at \$37 a share.

- A. -\$2; \$0
- B. -\$2; \$2
- C. \$0; \$2
- D. \$2; \$0**
- E. \$2; \$2

**If MO is selling for \$33, the put is worth \$2. If MO is selling for \$37, the put is worthless.**

9. Tom writes an American put on GH stock at an exercise price of \$25 and an expiration date of February 18. Today is January 30 and GH stock is selling for \$22 a share. Which of the following statements must be correct?

- I. Tom will have a payoff of \$3 a share at expiration.
- II. If Tom exercises his put today; he will earn \$3 a share.
- III. Tom must buy GH stock at \$25 a share if the put is exercised.
- IV. If GH stock is selling for \$22 at expiration; the put will not be exercised.

**A. III only**

- B. IV only
- C. I and II only
- D. I, II, and III only
- E. I, II, and IV only

**If GH is selling for \$22 at expiration, the put will be exercised and Tom will be required to purchase the shares of GH at \$25 a share.**

10. WW stock is currently selling for \$36 a share. Lester would like to own some WW stock but is unwilling to pay that much per share to do so. Lester should consider \_\_\_\_\_ with a strike price of \_\_\_\_\_ per share of stock.

- A. buying a call; \$40
- B. buying a put; \$35
- C. buying a put; \$40
- D. selling a put; \$40

**E. selling a put; \$35**

If Lester sells a put at \$35, he will keep the option premium and may be able to purchase shares of WW at \$35 a share.

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