Roots Institute of Financial Markets

RIFM

Practice Book

Commodity Market (Dealers) Module

Forward

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Commodity Market (Dealers) Module

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Chapter 1
Introduction to derivatives

1. The first futures clearing house came into existence?
   A. 1915
   B. 1925
   C. 1848
   D. 1920

2. The underlying asset can be___________
   A. Equity
   B. Forex
   C. Commodity
   D. Any of the above

3. __________ regulates the forward/futures contracts in commodities all over India?
   A. Indian Contract Act, 1872
   B. The Forward Contracts (regulation) Act, 1952
   C. Money Laundering Act, 2002
   D. All of the above

4. When was derivatives trading in securities introduced in_________
   A. 2003
   B. 2000
   C. 2001
   D. None of the above

5. Derivatives are securities under the ___ and hence trading of derivatives is governed by the regulatory framework under the_________
   A. SEBI, SCRA 1956
   B. SCRA 1956, SEBI
   C. SEBI, SEBI
   D. SCRA, SCRA 1956

6. What are the types of derivative?
   A. Forwards
   B. Futures
   C. Options
   D. All of the above

7. Who face risk associated with the price of an asset?
   A. Hedgers
   B. Speculators
   C. Arbitragers
   D. Any of the above

8. Hedgers use the future or options markets to___________
   A. Reduce or eliminate this risk
   B. Increase risk for more risk profit
   C. For speculating purpose
   D. All of the above

9. Which of the following work at making profits by advantage of discrepancy between prices of the same product across different markets?
   A. Hedgers
   B. Speculators
   C. Arbitragers
   D. Any of the above

Chapter 1					
Question	Answer	Question	Answer	Question	Answer
1	B	15	A	29	A
2	D	16	A	30	D
3	B	17	C	31	A
4	C	18	A	32	B
5	D	19	C	33	A
6	D	20	A	34	C
7	A	21	B	35	C
8	A	22	A	36	C
9	C	23	C	37	A
10	B	24	B	38	A
11	D	25	D	39	D
12	A	26	A	40	C
13	C	27	A	41	A
14	B	28	B	42	D

8. Physical deliveries of commodities take place through the Exchange platform which presently ranges between ____________ tones every month.
   A. 30,000-45,000
   B. 15,000-30,000
   C. 20,000-30,000
   D. 30,000-40,000

9. The Exchange need to know the future prices at around closing time of the contract for the Final Settlement Price on the expiry day.
   A. True
   B. False

10. In India, there is an effective mechanism or real time spot price information of commodities.
   A. True
   B. False

11. Agricultural spot markets in India are spread over ________ mandis across the country.
   A. 5,000
   B. 7,000
   C. 6,000
   D. 8,000

12. NCDEX has put in place a mechanism to poll spot prices prevailing at various mandis throughout the country.
   A. True
   B. False

13. __________________ is the process of eliciting information from a cross section of market players about the prevailing price of the commodity in the market.
   A. Spot Price Polling
   B. Polling
   C. Bootstrapping
   D. None of the Above

14. A panel of polling participants comprising various user class like _______________
   A. Growers
   B. Traders/Brokers
   C. Processors
   D. All of the above

15. Multiple-location polling for a commodity helps the Exchange.
   A. True
   B. False

16. The Categories of NCDEX Members are ___________________

A. Trading cum Clearing Member (TCM)
B. Professional Clearing Members (PCM)
C. Trading Member (TM)
D. All of the Above

A.

Chapter 3					
Question	**Answer**	**Question**	**Answer**	**Question**	**Answer**
1	C	24	C	47	B
2	D	25	B	48	C
3	A	26	C	49	C
4	A	27	B	50	A
5	C	28	A	51	B
6	A	29	A	52	D
7	C	30	B	53	C
8	A	31	B	54	D
9	B	32	A	55	A
10	B	33	B	56	B
11	B	34	C	57	B
12	A	35	B	58	B
13	B	36	A	59	B
14	D	37	A	60	C
15	A	38	B	61	A
16	D	39	C	62	C
17	D	40	A	63	B
18	A	41	D	64	D
19	B	42	B	65	A
20	C	43	D	66	C
21	B	44	B	67	A
22	A	45	C	68	A
23	B	46	A	69	B

Chapter 5
Instruments available for trading

32. The potential returns on a futures position are:
    A. Limited
    B. Unlimited
    C. function of the volatility of the index
    D. None of the above

33. Two persons agree to exchange 100 gms of gold three months later at Rs.400/ gm. This is an example of a________________
    A. Futures contract
    B. Forward contract
    C. Spot contract
    D. None of the above

34. Typically option premium is_____________
    A. Less than the sum of intrinsic value and time value
    B. Greater than the sum of intrinsic value and time value
    C. Equal to the sum of intrinsic value and time value
    D. Independent of intrinsic value and time value

35. An asset currently sells at 120. The put option to sell the asset at Rs.134 costs Rs.18. The time value of the option is ___________
    A. Rs.18
    B. Rs.4
    C. Rs.14
    D. Rs.12

36. Two persons agree to exchange 100 gms of gold three months later at Rs.400/ gm. This is an example of a________________
    A. OTC contract
    B. Exchange traded contract
    C. Spot contract
    D. None of the above

37. Unit of trading for soy bean futures is 10 Quintals, and delivery unit is 100 Quintals. A trader buys futures on 10 units of soy bean at Rs. 1500/Quintal. A week later soy bean futures trade at Rs. 1550/Quintal. How much profit/loss has he made on his position?
    A. (+)5000
    B. (-)5000
    C. (+)50,000
    D. (-)50,000

38. Unit of trading for soy bean futures is 10 Quintals, and delivery unit is 100 Quintals. A trader buys futures on 10 units of soy bean at Rs. 1500/Quintal. A week later soy bean futures trade at Rs. 1450/Quintal. How much profit/loss has he made on his position?
    A. (+)5000
    B. (-)5000

C. (+)50,000
D. (-)50,000

66. The losses for the writer of an option are limited; however the profits are potentially unlimited.
A. True
B. False

67. If upon expiration the spot price of the underlying is more than the strike price. The buyer of put ___________
A. Exercises his option
B. Leaves it unexercised
C. NSCCL credits his account automatically
D. None of the above

Solutions

Solution 37: Each unit is for 10 Quintals. He buys 10 units which mean a futures position 100 Quintals. He makes a profit of Rs.50/Quintal. I.e. he makes a profit of Rs.5000.

Solution 38: Each unit is for 10 Quintals. He buys 10 units which mean a futures position in 100 Quintals. He makes a loss of Rs.50/Quintal. i.e. he makes a loss of Rs.5000.

Solutions 39: Each unit is for 10 Quintals. He sells 10 units which means a futures position in 100 Quintals. He makes a profit of Rs.50/Quintal. i.e. he makes a profit of Rs.5000.

Solutions 40: Per 10 gms he makes a net profit of Rs.10, i.e.[(7080 - 7000) - 70]. He has a long position in 1000 gms. So he makes a net profit of Rs. 1000 on his position $\left(\frac{100}{10} \times 10\right)$

Solutions 41: The option is OTM. Unit of trading is 100 gms and he has bought 10 units. So he has a position in 1000 gms of gold. He pays an option premium of Rs.70 per 10 gms. He losses the premium amount of Rs.7000 on his position.

Solutions 42: On the day of expiration, the option is ITM so the buyer exercises on him. The buyers profit is the sellers' loss. Per 10 gms he makes a net loss of Rs.10, i.e.[(7080 - 7000) - 70]. He has a short position in 1000 gms. So he makes a net loss of Rs.1000 on his position $\left(\frac{100}{10} \times 10\right)$.

Solutions 43: The option is OTM. The buyer does not exercise so the seller gets to keep the premium. Unit of trading is 100 gms and he has sold 10 units. So he has a position in 1000 gms of gold. He receives an option premium of Rs.70 per 10 gms. He earns the premium amount of Rs.7000 on his position.

Chapter 5					
Question	**Answer**	**Question**	**Answer**	**Question**	**Answer**
1	C	24	C	47	A
2	C	25	B	48	D
3	C	26	C	49	B
4	D	27	A	50	C
5	A	28	C	51	C
6	C	29	D	52	A
7	D	30	C	53	D
8	D	31	A	54	A
9	D	32	B	55	D
10	B	33	B	56	A
11	A	34	C	57	A
12	B	35	B	58	A
13	B	36	A	59	B
14	C	37	A	60	B
15	C	38	B	61	B
16	A	39	A	62	B
17	A	40	B	63	C
18	B	41	A	64	A
19	B	42	D	65	B
20	A	43	A	66	B
21	A	44	C	67	B
22	B	45	A	68	B
23	B	46	A		

Chapter 8
Trading

9. Each TCM can have more than one user
   A. True
   B. False

10. Order matching is essential on the basis
   a) Commodity
   b) Price of commodity
   c) Time
   d) Quantity

   A. a), b) and c)
   B. a),d) and c)
   C. b),c) and d)
   D. All of the above

11. The responsibility of the TCM to maintain adequate control over persons having access to the firm's User IDs
   A. True
   B. False

12. The client code should be ___________
   A. Numerical
   B. Alphanumerical
   C. Alphabetic
   D. None of the above

13. It is voluntary for a TCM to be registered with the exchange.
   A. True
   B. False

14. If the 20th of the expiry month is a trading holiday, the contracts shall expire on the _________
   A. Next trading
   B. Next 20^{th} day of the next month
   C. Previous trading day
   D. None of the above

15. All commodity future contract expire on the________
   A. Last Thursday of every month
   B. 20^{th} of the expiry month
   C. 30^{th} of the expiry month
   D. Daily trading basis

16. Day order means ___________

A. Valid for the day on which it is entered.
B. If order is not executed during the day, the system cancels the order automatically at the end of the day.
C. Both A & B are right.
D. Both A & B are wrong

17. ___________order allows the user to specify the date till which the order should remain in the system if not executed

A. Good till cancelled (GTC)
B. Immediate or cancelled (IOC)
C. Good till date (GTD)
D. All or none order

Solutions

Solution 39 A: One trading unit is for 100 gms. He has bought 10 units. The value of his long gold futures position is $\left(\frac{5,500}{10} \times 100 \times 10\right)$.

Solution 40 A: One trading unit is for 100 gms. He has bought 20 units. The value of his long gold futures position is $\left(\frac{7,100}{10} \times 100 \times 20\right)$.

Solution 41 A Futures price of 10 gms of gold is Rs.7,000. This means gold futures cost Rs.700 per gram. He has to take a position $\frac{10,00,000}{700}$, i.e. in 1428.57 gms of gold gms. He has to buy 14 units of gold futures Contracts.

Solution 42 A: Futures price of 10 gms of gold is Rs.7,000. This means gold futures cost Rs.700 per gram. To take a position in 1000 gms of gold he has to buy 10 units of gold futures contracts

Solution 43 A: Futures price of 10 gms of gold is Rs.7,000. This means gold futures cost Rs.700 per gram. To take a position in 1000 gms of gold he has to sell 10 units of gold futures contracts.

Chapter 8					
Question	**Answer**	**Question**	**Answer**	**Question**	**Answer**
1	D	20	A	39	A
2	B	21	C	40	D
3	D	22	A	41	D
4	A	23	C	42	C
5	B	24	B	43	A
6	B	25	A	44	D
7	A	26	B	45	C
8	B	27	B	46	A
9	A	28	C	47	D
10	C	29	B	48	B
11	A	30	B	49	A
12	B	31	D	50	A
13	B	32	B	51	B
14	C	33	A	52	B
15	B	34	C	53	B
16	C	35	B	54	B
17	C	36	D	55	B
18	B	37	B	56	A
19	D	38	C	57	B

Chapter 12
Electronic Spot Exchange

1. The regular practice followed is that on harvest the farmers bring their produce to these mandis and dispose of the same through ________________
   A. Bilateral Negotiations
   B. An Auction Process
   C. Either A & B
   D. Neither A nor B

2. Bilateral trade happens largely in those cases where the concerned farmer is indebted to a particular Arathiya or Commission agent.
   A. True
   B. False

3. The NCDEX Spot Exchange is a wholly owned subsidiary of the National Commodity & Derivatives Exchange Limited.
   A. True
   B. False

4. NSPOT would facilitate __________________
   A. Wider reach
   B. Liquidity
   C. Timely settlement
   D. All of the above

5. NSPOT is established as per the guidelines of _______________
   A. Ministry of Consumer Affairs
   B. Government of India
   C. Both of the above
   D. None of the above

6. Which is the leading Indian Agriculture Commodity Derivatives Exchange?
   A. NCDEL
   B. NCEDX
   C. NABARD
   D. ICICI

7. NSPOT has launched successful contracts including ___________
   A. Sugar-Kolhapur Delivery
   B. Chana-Indore
   C. Bikaner and Sriganganagar
   D. All of the above

8. NSPOT is a public limited company incorporated on _______________ under Companies Act,1956
   A. 18th Oct 2003

B. 18th Oct 2004
C. 18th Oct 2005
D. 18th Oct 2006

Chapter 12			
Question	**Answer**	**Question**	**Answer**
1	C	17	D
2	A	18	B
3	A	19	A
4	D	20	A
5	C	21	B
6	B	22	B
7	D	23	A
8	D	24	B
9	B	25	B
10	D	26	C
11	D	27	B
12	A	28	C
13	B	29	D
14	C	30	D
15	B	31	D
16	C		

Solutions

Solution 38 A: He makes a profit of Rs.30 per Quintal on his futures position. One futures contract consists is for 18.7 Quintals. He has bought ten futures contract. So he makes a profit of 30 * 18.7 * 10 = Rs.5610.

Solution 39 A: Each unit of trading is 100 gms. He has bought two units. This means he has a long position in 200 gms of gold. He makes a profit of Rs.25 per 10 gms on his futures position. So he makes a profit of Rs.500, i.e $\frac{20}{10} \times 200$ = Rs.500.

Solution 40 A: After netting, the trading member has a long open position in 600 trading units.

Solution 41 A: After netting, the trading member has a proprietary open position in 600 trading units. He would be margined on a net basis at the proprietary level and on a gross basis across clients, i.e. (600 + 2000 +1000).

Solution 42 *A:* He would be margined on a net basis at the proprietary level and at the individual client level and on a gross basis across clients, i.e. (3000 + (2000 - 1500) + 1000).

Model Test Paper

1. Which of the following can be the underlying for a commodity derivative contract?
   A. Interest Rate
   B. Euro-Indian Rupee
   C. Gold
   D. NIFTY

2. Daily mark to market settlement is done ______________________.
   A. Till the date of contract expiry
   B. As long as the contract makes a loss
   C. On the last day of week
   D. On the last trading day of the month

3. __________ is the actual process of exchanging money and goods.
   A. Transfer
   B. Settlement
   C. Netting
   D. Clearing

4. ___________ Work at making profits by taking advantage of discrepancy between prices of the same product across different markets.
   A. Arbitragers
   B. Speculators
   C. Exchange
   D. Hedgers

5. A forward contract is an agreement between two entities to buy or sell the underlying asset at a future date, at today's pre-agreed price.
   A. FALSE
   B. TRUE

6. Options trading in commodity take place in Indian commodity exchanges.
   A. TRUE
   B. FALSE

7. Commodity exchanges enable producers and consumer to hedge their _______ given the uncertainty of the future.
   A. seasonal risk
   B. profit risk
   C. production risk
   D. price risk

Model Test Paper					
Question	**Answer**	**Question**	**Answer**	**Question**	**Answer**
1	C	21	D	41	B
2	A	22	A	42	B
3	B	23	B	43	A
4	A	24	C	44	A
5	B	25	A	45	B
6	B	26	A	46	C
7	D	27	A	47	A
8	C	28	D	48	B
9	A	29	B	49	A
10	A	30	A	50	C
11	B	31	C	51	C
12	B	32	D	52	A
13	C	33	D	53	D
14	D	34	A	54	A
15	C	35	A	55	B
16	A	36	B	56	D
17	D	37	A	57	B
18	A	38	C	58	C
19	C	39	B	59	D
20	B	40	D	60	B

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