

Homework Assignment 7. Due: Thursday, March 23.

1. (1 point) Describe the procedure that clearing corporations use to eliminate the risk of default on any of futures contracts.
2. (1 point) What is the price of the futures contract on its expiration date? What process guarantees that the price will be as you described it?
3. (1 point) Is an investor who took a short position in Treasury Bonds Futures market hoping for higher or lower interest rates in the future? Explain.
4. (1 points) Suppose an owner of a manufacturing firm in US expects to get paid in Euros in five months by a customer in Germany. What are the risks associated with this transaction? Name at least one way to hedge against the exchange rate risk?
5. (1 point) Describe the difference between American and European options?
6. (1 point) Compute the profits of an investor who bought for a \$1000 premium a *call* option on 1000 stocks with a strike price of \$110, if at the expiration date the price is \$114.
7. (1 point) Compute the profits of an investor who bought for a \$1000 premium a *put* option on 1000 stocks with a strike price of \$113, if at the expiration date the price is \$114.
8. (1 points) Name at least two factors affecting option premiums?
9. (2 points) Show graphically and explain the profits and losses of buying futures relative to buying call options.