NAME:____

BEM 103 QUIZ 8

1. *An airline wants to hedge its fuel costs*

a) Because it worries about shortages

b) Because it does not want to have to raise prices on passengers?

c) Because it can make money when the price of gasoline rises

d) Because it has sold tickets and cannot raise prices on those passengers if fuel costs go up

2. *A farmer with a barn of corn prefers:*

a. To go long on corn futures contracts

b. To go short on corn futures contract

c. To buy a call option of corn.

d. To buy crop insurance

3. *Why is there no counter party risk in futures contracts?* Because the exchange force the relevant side to post additional collateral as prices changes so that exiting the contract by buying the other side is always feasible with the collateral account.

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4. *Highly leveraged firms are more likely to hedge?*

a. Because their owners are risk averse

b. Because their sectors are more risky

c. Because they face a higher risk of bankruptcy

d. Because they are in thick markets