

NAME: _____

BEM 103 QUIZ 9

1. *Futures market have collateral accounts because*

- A. People want to go short on their houses
- B. Buying futures is like gambling
- C. It allow the exchange to make sure parties will execute the contracts**
- D. Commodities have to be stored

2. *The difference between a European and an American option is*

- A. Europeans are traded in Europe and Americans in the US
- B. Americans can be exercised at any time European options only at Expiry**
- C. European options are denominated in Euros
- D. European options are long and Americans are short

NOTE THIS QUESTION WAS PHRASE WRONG AND EVERYONE GOT FULL CREDIT

3. *The replicating portfolio allows to price an option because*

- A. It's the price of a portfolio that has the same payoff as the option in all states of the world
- B. It's the price of a portfolio that has the same upside payoff**
- C. You can make as many of these as you want so there is no scarcity
- D. Its what the counterparty must buy when it sells a put option

4. *Suppose a firm that is not leverage and has a $\beta=2$, decides to borrow and amount B such that it can pay on the bonds in all states of the world and uses that money to buy back part of the equity. What can you say about changes to β and changes to the return to equity?* _____

_____ **β will increase and so will the return to the stock** _____

