

## OPTIONS TRADING FINAL EXAM (100 MULTIPLE CHOICE QUESTIONS)

1. What is an Option?

- A. The right to buy or sell an asset within a stipulated time
- B. The right to own the stock of other similar business company
- C. The right to buy a futures contract
- D. The right to question the management of the company

Answer: A

2. The other name for a Put option seller is?

- A. Short Put
- B. Long Put
- C. Short Call
- D. Married Put

Answer: A

3. What is a Put option?

- A. The right to have the voting right in the company board meetings
- B. The right to sell the underlying asset on or before maturity
- C. The right to buy the underlying asset on or before maturity
- D. All of these

Answer: B

4. When is the strike price decided?

- A. Anytime during the duration of the contract
- B. At the time of entering the contract
- C. At the time of expiry
- D. Never agreed upon

Answer: B

5. A Call option of strike price USD was bought by paying a premium of USD 10 and the share price upon expiry is USD 193. The total profit made is:

- A. 43
- B. 33
- C. 13
- D. 53

Answer: B

6. What is an out of the money put option?

- A. One where the spot price is above the strike price
- B. One where the spot price and strike price are the same
- C. One where the strike price is above the spot price
- D. None of these

Answer: A

7. The monthly expires on last working Thursday of every month, but if the last working day is a holiday then the option expires on:

- A. The next working day i.e., Friday
- B. The next Thursday
- C. Does not expire
- D. The previous working day i.e., Wednesday

Answer: D

8. The Minimum and Maximum Intrinsic value for an option buyer is:

- A. Unlimited and unlimited
- B. 0 and Unlimited
- C. Unlimited and 0
- D. None of these

Answer: B

9. Which of the following are benefits of writing options?

- A. You get paid potential profits up front in the form of the premium
- B. If the option expires out of the money, no one will want to exercise the contract and you will keep your entire premium
- C. You can close your trade at any time
- D. All of the above

Answer: D

10. Before earnings season, a winning strategy is to:

*Statement 1: Buy calls on stocks of the companies that are expected to report better-than-expected earnings*

*Statement 2: Buy puts in companies that are expected to miss consensus earnings estimates.*

- A. Both statements are True
- B. Only statement 1 is True
- C. Only statement 2 is True
- D. Both statements are False

Answer: A

11. Bear Put spreads:

- A. Are generally used when you expect that the underlying stock, index or commodity will decline in price

- B. Are generally used when you expect that the underlying stock, index or commodity will increase in price
- C. Can work in either condition
- D. None of the above

Answer: A

12. The maximum risk in a short put is:
- A. Unlimited
  - B. Equal to the price of the stock minus the premium received
  - C. Equal to the price of the stock plus the premium received
  - D. None of the above

Answer: B

13. Implied Volatility is:
- A. Actual Volatility
  - B. Historical Volatility
  - C. Expected Volatility
  - D. Average Volatility

Answer: C

14. Co. A is currently trading for \$116. Calculate by how much a Put Option with the Strike Price 104 is OTM (Out of The Money)?
- A. \$0
  - B. \$104
  - C. \$116
  - D. \$12

Answer: D

15. What is the advantage of American Options over European options?
- A. American Options can be exercised anytime
  - B. American Options can only be exercised at the expiration date
  - C. American Options available in the US
  - D. American Options available outside of US as well

Answer: A

16. Co. B is trading for \$179, which option is ITM (In the Money)?
- A. Call 171
  - B. Call 186
  - C. Put 171
  - D. None of the above

Answer: A

17. Select the option that could profit from a rise in the underlying asset's price:

- A. Long Put
- B. Short Call
- C. Long stock
- D. Long Call

Answer: D

18. The seller of a put option is betting that the market value of the stock will decrease.

- A. True
- B. False

Answer: B

19. If the owner of a call option with a strike price of \$65 finds the stock to be trading for \$79 at expiration, then the option:

- A. Expires worthless
- B. Is \$14 ATM
- C. Is \$14 ITM
- D. Is \$14 OTM

Answer: C

20. What is the option buyer's total profit or loss per share if a call option is purchased for a \$7 premium, has a \$55 exercise price, and the stock is valued at \$59 at expiration?

- A. -\$7
- B. \$4
- C. -\$3
- D. \$55

Answer: C

21. Which of the following option traders *receive*, rather than pay, a premium?

- A. Long Call
- B. Short Put
- C. Long Put
- D. None of the above

Answer: B

22. Which of the following is true for an investor that owns a share of stock and has purchased a put option on the stock?

- A. The investor profits when the stock decreases in value
- B. Maximum loss is the price of the option premium
- C. The investor is protected against upside potential
- D. Increase in stock value goes to the seller of the put

Answer: A

23. Which combination of positions will tend to protect the owner from downside risk?

- A. Buy the stock and buy a call option
- B. Sell the stock and buy a call option
- C. Buy the stock and buy a put option
- D. Sell the stock and buy a put option

Answer: C

24. What is the worst-case scenario for an investor who sold a call on the firm's stock for a premium of \$10 and a strike price of \$100?

- A. \$90 per share profit
- B. \$10 per share profit
- C. \$0 per share profit
- D. Unlimited loss

Answer: D

25. The value of a call option increases as the time to expiration increases because:

- A. The exercise price continually decreases
- B. Opportunity to surpass exercise price increases
- C. Dividends accumulate while waiting to be paid
- D. The option can be exercised more than once

Answer: B

26. Which of the following call options would command the higher premium in September, 2002, other things equal?

- A. October 2002 expiration, \$45 strike price
- B. December 2002 expiration, \$40 strike price
- C. March 2003 expiration, \$45 strike price
- D. June 2003 expiration, \$40 strike price

Answer: D

27. An option that can be exercised only at the expiration date is called:

- A. a European option
- B. an American option
- C. a call option
- D. a put option

Answer: A

28. Which of the following investors would be happy to see the stock price rise sharply?

- A. An investor who owns a put option
- B. An investor who owns the stock and has sold a call option
- C. An investor who has sold a call option
- D. None of the above

Answer: D

29. Suppose an investor sells a put option. What will happen if the stock price on the exercise date is below the exercise price?

- A. The seller will need to deliver stock to the owner of the option
- B. The seller will be obliged to buy stock from the owner of the option
- C. The owner will not exercise his option
- D. None of the above

Answer: B

30. Suppose an investor buys one share of stock and a put option on the stock. What will be the payoff of his investment on the final exercise date if the stock price is above the exercise price?

- A. The value of two shares of stock
- B. The value of one share of stock plus the exercise price
- C. The exercise price
- D. none of the above

Answer: D

31. The buyer of a call option has the choice to exercise, but the writer of the call option has:

- A. The choice to offset with a put option
- B. The obligation to deliver the shares at exercise
- C. The choice to deliver shares or take a cash payoff
- D. The choice of exercising the call or not

Answer: B

32. Buying a call option and investing the present value of the exercise price in T-bills (risk-free securities) is the same as:

- A. Buying a call and a put
- B. Buying a put and a share
- C. Selling a put
- D. Selling a call

Answer: B

33. Suppose an investor buys one share of stock and a put option on the stock and simultaneously sells a call option on the stock with the same exercise price. What will be the value of his investment on the final exercise date?

- A. Above the exercise price if the stock price rises and below the exercise price if it falls
- B. Equal to the exercise price regardless of the stock price
- C. Equal to zero regardless of the stock price
- D. Below the exercise price if the stock price rises and above if it falls

Answer: B

34. Which options strategy would you use if you expect the price of an asset to rise slightly but also wish to minimize the cost of a long call option?

- A. Covered Call
- B. Bull Call Spread
- C. Bear Put Spread
- D. None of the above

Answer: B

35. Which options strategy would you use if you expect the price of an asset to decline slightly but also wish to minimize the cost of a long put option?

- A. Married Put
- B. Bull Call Spread
- C. Bear Put Spread
- D. None of the above

Answer: C

36. Why should you use leverage carefully?

- A. Leverage magnifies only losses
- B. Leverage magnifies only profits
- C. Leverage magnifies both profits and losses
- D. Leverage requires payment of interest

Answer: C

37. Which of the following is a risk in a long call options contract?

- A. Counterparty risk
- B. Liquidity risk
- C. Market risk

D. All of the above

Answer: D

38. What is the most common strategy to reduce the risk from an options contract?

- A. Taking an offsetting position to the original options contract
- B. Taking leverage to invest
- C. Exercising the option
- D. None of the above

Answer: A

39. Which of the following is an important aspect of putting together a trading plan?

- A. Risk Assessment
- B. Identifying Objectives
- C. Understanding the market
- D. All of the above

Answer: D

40. Why is it important to stick to your trading plan?

- A. Sticking to your trading plan helps you navigate through tough market situations
- B. Sticking to your trading plan protects you from taking irrational decisions that may lead to losses
- C. None of the above
- D. All of the above

Answer: D

41. What is the benefit from taking an offsetting position in an options trade?

- A. Limiting the potential losses
- B. Reducing the risks from existing trade
- C. Opportunity to correct any incorrect market predictions
- D. All of the above

Answer: D

42. Market Risk is:

- A. Risk from economic changes
- B. Risk from political changes
- C. Both A&B
- D. None of the above

Answer: C

43. Liquidity Risk in options trading relates to which of the following metrics:

- A. Volumes traded on the option
- B. Price volatility of the option

- C. Time to expiration of the option
- D. None of the above

Answer: A

44. Which metric demonstrates the moneyness of an option?

- A. Extrinsic Value
- B. Time Value
- C. Intrinsic Value
- D. None of the above

Answer: C

45. Which metric demonstrates the time value of an option?

- A. Extrinsic Value
- B. Moneyness
- C. Intrinsic Value
- D. None of the above

Answer: A

46. Options delta measures the...

- A. rate of change of an option's price to price changes of the underlying stock
- B. rate of change of a stock's price to changes in the price of the option
- C. rate of change of an option's price to changes in the implied volatility of the underlying stock
- D. rate of change of a stock's price to changes in its implied volatility

Answer: A

47. Options Theta measures the...

- A. Rate of decay of an option's extrinsic value on a daily basis
- B. Rate of decay of an option's intrinsic value on a daily basis
- C. Rate of decay of an option's extrinsic value on a monthly basis
- D. Rate of decay of an option's intrinsic value on a monthly basis

Answer: A

48. Options Vega measures the...

- A. The expected volatility of the underlying stock
- B. The implied volatility of an option
- C. The price sensitivity of an option to changes in implied volatility
- D. The price sensitivity of the underlying stock to changes in implied volatility

Answer: C

49. Options Gamma measures the...

- A. The level of toxic exposure of an option
- B. The rate of change of option's volatility to changes in the price of the underlying stock

- C. The rate of change of option's price to changes in the price of the underlying stock
- D. The rate of change of options delta to changes in the price of the underlying stock

Answer: D

50. Generally, when the price of a stock rises, which of the following holds true?

- A. Theta of call options increases
- B. Delta of call options increases
- C. Delta of call options decreases
- D. Theta of call options decreases

Answer: B

51. Generally, when the price of a stock decreases, which of the following holds true?

- A. Delta of short call options decreases
- B. Delta of short call options increases
- C. Delta of long call options decreases
- D. Delta of call options is unaffected

Answer: A

52. Which of the following statement is true?

- A. The extrinsic value of call options is inversely proportionate to its intrinsic value
- B. The extrinsic value of call options is highest when it is in the money
- C. The extrinsic value of call options is highest when it is out of the money
- D. The extrinsic value of call options is highest when it is at the money

Answer: D

53. Assuming a stock is \$10, its \$9 strike price call options asking for \$1.30 premium consists of...

- A. \$1 extrinsic value and \$0.30 intrinsic value
- B. \$1.30 worth of extrinsic value
- C. \$1 intrinsic value and \$0.30 extrinsic value
- D. \$1.30 worth of intrinsic value

Answer: C

54. Assuming a stock is \$10, its \$9 strike price put options asking for \$1 premium consists of...

- A. \$0.7 extrinsic value and \$0.3 intrinsic value
- B. \$1 worth of extrinsic value
- C. \$0.7 intrinsic value and \$0.30 extrinsic value
- D. \$1 worth of intrinsic value

Answer: B

55. Which of the following positions is most likely to have a delta of zero?

- A. Short at the money call option + long underlying stock
- B. Short at the money call option + short underlying stock
- C. long at the money call option + short underlying stock
- D. long at the money call option + short at the money put option

Answer: D

56. Which of the following positions would you most likely put on if a stock is going to go up?

- A. Long underlying stock + short out of the money call options
- B. Long call option + long put option
- C. Long put option + short call option
- D. Short underlying stock + long put option

Answer: A

57. Extrinsic Value is...

- A. the part of the price of an option that you profit from when you buy an option
- B. the part of the price of an option indicating its built in value
- C. the part of the price of an option that reduces over time
- D. the part of the price of an option that moves with the underlying stock

Answer: C

58. Which of the following positions are you most likely to put on if a stock is going to go down?

- A. Long stock + long out of the money call options
- B. Long stock + long out of the money put options
- C. Long at the money put options + short out of the money put options
- D. Long out of the money put options + short at the money put options

Answer: C

59. Intrinsic value is...

- A. The part of the price of an option that remains stagnant regardless of stock movement
- B. The part of the price of an option that you get as profit when you buy options
- C. The part of the price of an option that decays over time
- D. The part of the price of an option that indicates its built-in value

Answer: D

60. If you own a deep-in-the-money call option on non-dividend-paying stock, you will MOST LIKELY NOT to \_\_\_\_\_.

- A. Sell the option

- B. Keep the option until later to see if the stock price will go up further
- C. Exercise the option
- D. None of the above

Answer: C

61. A call option with a strike price of \$55 can be bought for \$4. What will be your net profit if you sell the call and the stock price is \$52 when the call expires?

- A. \$4
- B. \$3
- C. -\$7
- D. \$7

Answer: A

62. Suppose you sell a call and buy one share of stock. What is your cash payoff when the option expires? (Ignore the costs of the call and the share of stock).

- A. Receive  $X$  if  $S_t \leq X$  and receive  $S_t$  if  $S_t > X$ .
- B. Receive  $S_t$  if  $S_t \leq X$  and receive  $X$  if  $S_t > X$
- C. Receive  $S_t$  if  $S_t \leq X$  and receive  $-(S_t - X)$  if  $S_t > X$
- D. Receive  $(S_t - X)$  if  $S_t \leq X$  and receive  $X$  if  $S_t > X$

Answer: B

63. Which of the following actions will not close a long position in a call option?

- A. Buying a put with the same strike price, expiration, and underlying asset
- B. Exercising the call
- C. Allowing the call to expire
- D. Selling a call with the same strike price, expiration, and underlying asset

Answer: C

64. Which of the following investment strategies has unlimited profit potential?

- A. Writing a call
- B. Bull spread
- C. Covered Call
- D. Long Call

Answer: C

65. Which of the following are the highest cost options?

- A. Weekly
- B. Monthly
- C. Quarterly
- D. All have same cost for the same underlying asset

Answer: C`

66. Which of the following options is the most appropriate to benefit from a short-term news?

- A. Weekly
- B. Monthly
- C. Quarterly
- D. Any of the above

Answer: A

67. An investor looking to earn from writing options should choose which of the following options?

- A. Weekly
- B. Monthly
- C. Quarterly
- D. Any of the above

Answer: C

68. Which factors affect the option premium amount?

- A. Volatility of the underlying stock
- B. Time to expiration
- C. Moneyness of the option
- D. All of the above

Answer: D

69. Which of the following is not a reason to trade options?

- A. Hedging risks
- B. Making money
- C. Limiting losses
- D. None of the above

Answer: D

70. Which option must an investor choose for ensuring minimum upfront payment, given the stock price is \$50 (All options have the same expiry)?

- A. Long call 48
- B. Long Call 50
- C. Long Call 52
- D. Any of the above

Answer: C

71. Why would an investor buy an out of the money call option?

- A. It has the maximum time value
- B. It has the minimum premium
- C. It has the maximum intrinsic value
- D. None of the above

Answer: B

72. What is the Theta for a long call option?

- A. Negative
- B. Positive
- C. Zero
- D. Has no relation

Answer: D

73. If John purchases a call option on Co. A stock at Strike price of \$150 and sells a call option on the same stock at strike price of \$180 for a premium of \$10, what strategy has he employed?

- A. Bear Put Spread
- B. Long Call
- C. Short Call
- D. Bull Call Spread

Answer: D

74. Both Bull Call Spread and Bear Put Spread ensure what benefit to the investor?

- A. Both maximize the profit
- B. Both reduce the initial outlay of buying an option
- C. Both A & B
- D. None of the Above

Answer: B

75. If John purchases a put option on Co. A stock at Strike price of \$150 and sells a put option on the same stock at strike price of \$120 for a premium of \$10, what strategy has he employed?

- A. Bear Put Spread
- B. Long Call
- C. Short Call
- D. Bull Call Spread

Answer: A

76. A Married Put option requires holding a stock and purchasing an out of the money Put option on the same stock. What purpose does the strategy solve?

- A. Limit the downside Risk from owning the stock
- B. Provides unlimited profit potential
- C. Both A&B
- D. None of the above

Answer: C

77. Lisa has 100 shares of Amazon stock. She sells an options contract for 100 Amazon shares for a premium of \$20. Which strategy has she constructed?

- A. Bear Put Spread
- B. Covered Call
- C. Short Call
- D. Married Put

Answer: B

78. Which of the following statements is incorrect about time decay?

- A. Time decay accelerates the options nears its expiration
- B. Time decay is the rate of change in value to an option's price as it nears expiration
- C. If the option is out-of-the-money (OTM), time decay increases at a faster rate.
- D. None of the above

Answer: D

79. Which of the following statements is incorrect about implied volatility (IV)?

- A. IV tells the direction of the price movements
- B. IV refers to expected volatility
- C. IV helps set option pricing/premiums
- D. None of the above

Answer: A

80. Marilyn is understanding options trading. She can buy AAPL shares currently trading at \$400 for \$380 till the end of 6 months. She needs to make an upfront payment of \$40 for this trade. Which of the following is incorrect?

- A. Strike Price is \$400
- B. Time to maturity is 6 months
- C. Stock Price is \$400
- D. Option is in the money

Answer: A

81. Which of the following is false about moneyness of an option?

- A. An in the money options has positive Moneyness
- B. An in the money options has negative Moneyness
- C. An out of the money options has negative Moneyness
- D. An at the money options has no Moneyness

Answer: B

82. Which of the following is false about Time Decay?

- A. Time-value *decreases* as an ITM option gets deeper (more) in the money
- B. Time-value *decreases* as an OTM option gets deeper (more) out of the money
- C. Time-value is *at a maximum* when an option is at the money
- D. None of the above

Answer: D

83. A call option is selling for \$5. The Strike Price is \$120 and Stock Price is \$90. Which of the following is true?

- A. Intrinsic Value of the call option buyer is \$30
- B. Intrinsic Value of the call option buyer is -\$30
- C. Maximum profit from selling this call option can be \$120
- D. None of the above

Answer: B

84. Which of the following is true about Implied Volatility (IV)?

- A. High implied volatility results in options with higher premiums
- B. Low implied volatility results in options with lower premiums
- C. IV is highly sensitive to upcoming events and corrects later
- D. All of the above

Answer: D

85. Which of the following is incorrect about Delta of an option?

- A. Delta is positive for a Call option
- B. Delta is negative for a Put option
- C. Delta's value ranges from 0 to 1
- D. Rate of change of Delta is called Gamma

Answer: C

86. Which of the following is not an Options Greek?

- A. Alpha

- B. Gamma
- C. Vega
- D. Theta

Answer: A

87. Which of the following is a rationale for trading options?

- A. Risk hedging
- B. Higher ROI
- C. A range of strategies to maximize profits and minimize losses
- D. All of the above

Answer: D

88. Assume a stock is selling for \$66.75 with options available at 60, 65, and 70 strike prices. The 65 call option price is at \$4.50. What is the intrinsic value of the 65 call?

- A. \$1
- B. \$1.75
- C. \$1.25
- D. \$65

Answer: B

89. Assume a stock is selling for \$66.75 with options available at 60, 65, and 70 strike prices. The 65 call option price is at \$4.50. What is the extrinsic value of the 65 call?

- A. \$3.25
- B. \$1.75
- C. \$2.75
- D. \$65

Answer: C

90. Assume an investor writes a call option for 100 shares at a strike price of 30 for a premium of 5.75. This is a naked option. What would the gain or loss be if the stock closed at 26?

- A. -\$4.00
- B. \$1.75
- C. \$5.75
- D. -\$1.75

Answer: C

91. Assume an investor writes a call option for 100 shares at a strike price of 30 for a premium of 5.75. This is a naked option. What would be the break-even stock price (no gain/no loss price)?

- A. \$35.75
- B. \$24.25
- C. \$30.00
- D. \$25.00

Answer: A

92. Assume you purchase 100 shares of stock at \$44 per share and wish to hedge your position by writing a 100-share call option on your holdings. The option has a 40 strike price and a premium of 8.50. If the stock is selling at \$38 at the time of expiration, what will be the overall dollar gain or loss on this covered option play (include any gain/loss on stock holding as well)?

- A. \$250
- B. \$850
- C. \$600
- D. \$3800

Answer: A

93. Assume you purchase 100 shares of stock at \$44 per share and wish to hedge your position by writing a 100-share call option on your holdings. The option has a 40 strike price and a premium of 8.50. If the stock is selling at \$41 at the time of expiration, what will be the overall dollar gain or loss on this covered option play (include any gain/loss on stock holding as well)?

- A. \$250
- B. \$850
- C. \$450
- D. \$4100

Answer: C

94. Assume a 40 July put option is purchased for 6.50 on a stock selling at \$35 per share. If the stock ends up on expiration at 38.75, what will be the overall gain/loss from holding the put option?

- A. \$1.25
- B. -\$1.25
- C. \$5.25
- D. -\$5.25

Answer: D

95. Assume you sell 100 shares of Bowie Corporation short at \$72. You also buy a 70 call option for 5.25 to protect against the stock price going up. If the stock ends up at \$90, what will be your overall gain or loss?

- A. \$325
- B. -\$325
- C. \$525
- D. -\$525

Answer: B

96. Assume you sell 100 shares of Bowie Corporation short at \$72. You also buy a 70 call option for 5.25 to protect against the stock price going up. If the stock ends up at \$90, what will be the intrinsic value from selling the option?

- A. \$2000
- B. -\$525
- C. \$1800
- D. \$200

Answer: A

97. Which of the following is true about option premium?

- A. Option premium = Stock price - strike price
- B. Option premium = Strike price - stock price
- C. Option premium = Intrinsic value + Extrinsic value
- D. Option premium = Intrinsic value - Extrinsic value

Answer: C

98. Which of the following statements is correct?

- A. Time Value is dependent on moneyness of an option
- B. Time Value is dependent on strike price of an option
- C. Time Value is dependent on stock price of an option
- D. None of the above

Answer: A

99. Which of the following statements is correct?

- A. Long call options are preferred over long put options
- B. American options are preferred over European options
- C. Short call options are preferred short long put options
- D. None of the above

Answer: B

100. If an option on an underlying asset is in-the-money, the premium for the option will move dollar for dollar with the movement of the underlying asset's price.

- A. The statement is true
- B. The statement is false
- C. The variation in option premium will depend on other factors
- D. There will be no variation in option premium

Answer: A