END OF CHAPTER EXERCISES

Chapter 1 : Derivatives : An Overview

Financial Engineering : Derivatives And Risk Management

(Keith Cuthbertson, Dirk Nitzsche)

1. You are a speculator and you think stock prices will increase. Should you buy a call or a put option ?

2. You are a large multinational corporation, why might you want to simultaneously undertake both a currency swap and a plain vanilla interest rate swap ?

3. In what way is a call option to marry Vito Corleone's daughter in one years time different from a futures contract? Assume both contracts are held to maturity.

4. Who might find a futures contract on orange juice useful?

5. How can you speculate with a long futures contract if you sell it either prior to maturity or hold the contract to maturity ?

6. A bank raises funds at LIBOR in the interbank market and on-lends the funds in fixed interest mortgages. What are the risks involved and how might you hedge the risk ?

7. You are a US exporter who will receive € 10m in six months time from the sale of Barbie Dolls in Euroland. How can you hedge your foreign exchange risk ?