Final Exam Study Guide

Part 1: What is S&P500 index (SPY)?

[**Investing in the S&P 500 (video)**](https://www.youtube.com/watch?v=RR7e1Y-HJxQ)

 1) **What does the S&P 500 index consist of?**

A. 100 stocks

B. 200 stocks

C. 5,00 stocks

**Answer: C.**

**2) What percentage of the US market capitalization does the S&P 500 cover?**

A. 80%

B. 50%

C. 30%

**Answer: A.**

Explanation: The S&P 500 covers roughly 80% of the US market capitalization.

3) **Jared Kizer's analysis of the S&P 500's performance from March 2009 through October 2018 used a statistical method called:**

A. Hypothesis testing

B. Bootstrapping

C. Regression analysis

**Answer:** B

Explanation: Jared Kizer's analysis used bootstrapping to examine the S&P 500's performance during that time period.

**4) What was the main finding of Jared Kizer's analysis of the S&P 500's performance?**

A. The S&P 500's recent performance was highly unlikely.

B. The S&P 500's performance is likely to repeat in the future.

C. The S&P 500's performance is entirely predictable.

**Answer: A.**

Explanation: The main finding was that the S&P 500's performance was highly unlikely.

**5) How many stocks are there in the S&P 500 index?**

A. 50

B. 500

C. 1,000

**Answer: B.**

Explanation: The S&P 500 consists of 500 US stocks.

**6) What is one of the key reasons why the S&P 500's future performance is deemed unlikely to match its recent performance?**

A. Its low cost

B. Its past performance

C. It being a committee-based index

**Answer: C.**

Explanation: The fact that the S&P 500 is a committee-based index is mentioned as a reason for its future performance being unlikely to match its recent performance.

**7) The video suggests that global diversification can provide benefits, even when the US stocks have:**

A. The lowest volatility

B. The highest returns

C. The most diversified portfolio

**Answer: A.**

**Part 2: S&P 500 Companies by Weight**

Based on this article: **What Is the Weighting of the S&P 500? --- Understanding the Sectors and Market Caps in the Index**

[**https://www.thebalance.com/what-is-the-sector-weighting-of-the-s-and-p-500-4579847**](https://www.thebalance.com/what-is-the-sector-weighting-of-the-s-and-p-500-4579847)

**1) What is the primary focus of the S&P 500?**

a. Representing the entire U.S. stock market

b. Tracking small-cap companies

c. Focusing on international stocks

**Answer: a**

**2) How are companies selected for the S&P 500?**

a. Random selection

b. Based on their location

c. Companies with huge market capitalizations

**Answer: c.**

Explanation: Only companies with massive market capitalizations ($9.8 billion or more) are included in the S&P 500.

**3) What's the main drawback of investing in the S&P 500 for those seeking exposure to smaller firms?**

a. Higher fees

b. Lower returns

c. Missing out on returns from medium-sized and small companies

**Answer: c.**

Explanation: Investing in the S&P 500 may mean missing out on returns from medium-sized and small companies.

**4) Why is sector and industry diversification important in a stock portfolio?**

a. It reduces taxes

b. It ensures higher returns

c. Any sector can be the best-performing group in any given year

**Answer: c.**

**5) How has the sector weighting in the S&P 500 changed over the years?**

a. It hasn't changed at all

b. It has changed significantly

c. It has become more diversified

**Answer: b.**

Explanation: The weighting has changed significantly over the years.

**6) Why should the weighting of the S&P 500 matter to investors?**

c. The index may not always represent the best-performing companies.

a. It helps them choose individual stocks

b. It indicates the best-performing sector

**Answer: a.**

**7) What is the benefit of investing in the S&P 500 through a low-cost index fund?**

a. Guaranteed high returns

b. Diversification among market caps and sectors

c. Tax advantages

**Answer: b**

**8) How can investors seeking small-cap exposure achieve it?**

a. Purchase shares of an index fund mirroring the Russell 2000

b. Invest in an S&P 500 ETF

c. Invest in an international fund

**Answer: a.**

**9) How does diversification help investors?**

a. It guarantees high returns

b. It eliminates all investment risks

c. It reduces risk by spreading investments across different assets

**Answer: c.**

**10) Which ETF provides broad exposure to the entire stock market, including all market caps and sectors?**

a. S&P Total Stock Market ETF

b. Russell 2000 ETF

c. Vanguard's Total Stock Market ETF

**Answer: a.  .**

Part 3: Diversification

**1.**[**What is a Value Stock - Value Investing (youtube**](https://www.youtube.com/watch?v=Q81vgMOP0nM))

**1) What is the primary goal of value investing?**

A. Identifying undervalued stocks for long-term growth

B. Achieving rapid short-term gains

C. Speculating on high-risk assets

**Answer: A.**

Explanation: The primary goal of value investing is to find and invest in undervalued stocks with the expectation of long-term growth as the market recognizes their true value.

**2) Which financial concept is associated with the idea that a sum of money received in the future is worth less than the same amount received today?**

A. Inflation

B. Opportunity cost

C. Time value of money

**Answer: C**.

Explanation: The time value of money concept suggests that the value of money decreases over time due to factors like inflation and the opportunity cost of not having that money available for investment.

**3) When comparing companies using the price-to-earnings (P/E) ratio, a lower P/E ratio typically suggests:**

A. A more expensive stock

B. A higher growth potential

C. An attractive investment opportunity

**Answer: C.**

Explanation: A lower P/E ratio indicates that a company's stock may be undervalued, making it a potential value investment, as it offers a better value opportunity relative to its earnings.

**4) What is the main advantage of investing in value stocks?**

A. Higher potential returns

B. Lower risk

C. Guaranteed profits

**Answer: B**

Explanation: The primary advantage of investing in value stocks is that they are perceived to carry less risk because they are believed to be undervalued, and their prices have room to grow over time.

**5) According to Warren Buffett, in the short run, the stock market is like a:**

A. Voting machine

B. Slot machine

C. Weighing machine

**Answer: A.**

Explanation: Warren Buffett's quote suggests that in the short run, the stock market reflects the opinions and emotions of investors (a voting machine), but in the long run, it reflects the fundamental value of companies (a weighing machine).

**6) What is a value trap in the context of investing?**

A. An undervalued stock with high growth potential

B. A stock that appears undervalued but deserves a lower price

C. A stock trading at its intrinsic value

**Answer: B.**

Explanation: A value trap is a stock that may seem undervalued but, in reality, deserves its lower price due to fundamental weaknesses, such as poor financial health or unfavorable prospects.

 2.   [**Small Cap Stocks vs Large Cap Stocks - Which are Better Investments**](https://www.youtube.com/watch?v=ijcsImmqSZU)

 <https://www.youtube.com/watch?v=ijcsImmqSZU>

**1) What is the general range of market caps for mid-cap companies?**

A. $1 billion to $10 billion

B. $5 billion to $30 billion

C. $50 billion to $100 billion

**Answer: B.**

Explanation: Mid-cap companies typically have market caps ranging from $5 billion to $30.

**2) What conclusion can be drawn from the historical performance of small-cap companies?**

A. Small-cap companies consistently outperform other categories.

B. Small-cap companies are too risky to consider.

C. Small-cap companies offer higher potential returns but come with higher risk.

**Answer: C.**

Explanation: Small-cap companies have the potential for higher returns but also come with higher risk.

**3) What is a key factor when considering investments in small-cap companies?**

A. Extensive research

B. Diversification

C. Investing in large-cap companies

**Answer: B.**

Explanation: Doing thorough research is crucial when considering investments in small-cap companies.

**4) How to build a well-diversified portfolio?**

A. Invest exclusively in small-cap companies.

B. Stick to large-cap companies for stability.

C. Consider diversifying with large-cap companies but explore small-cap opportunities for growth.

**Answer: C.**

Explanation: A well-diversified portfolio may include both large-cap companies for stability and small-cap companies for growth opportunities.

**5) What financial principle explains the potential of small-cap stocks?**

A. Risk-return trade-off

B. Efficient market hypothesis

C. Random walk theory

**Answer: A.**

Explanation: The concept of higher risk and higher potential return associated with small-cap stocks, illustrating the risk-return trade-off.

**6) How is the risk level of small-cap stocks compared to large-cap stocks?**

A. Small-cap stocks are less risky.

B. Small-cap stocks are equally risky.

C. Small-cap stocks are riskier.

**Answer: C.**

Explanation: Small-cap stocks are riskier compared to large-cap stocks.

**7) What is the main takeaway from the video regarding investing in small-cap stocks?**

A. Small-cap stocks provide substantial growth opportunities with added risk.

B. Small-cap stocks guarantee high returns.

C. Small-cap stocks are suitable for conservative investors.

**Answer: A.**

Explanation: The video's main takeaway is that small-cap stocks offer significant growth opportunities but come with added risk, making them suitable for investors seeking higher potential returns.

 3. [**How Diversification Works (**](https://www.youtube.com/watch?v=Pmlsa5-ruMk)youtube)

**1) What is the main idea behind the saying "Don't put all your eggs in one basket" in investing?**

A) It encourages diversification to reduce risk.

B) It suggests investing in only one company.

C) It emphasizes the need to focus on a single investment for higher returns.

**Answer: A**

Explanation: The saying "Don't put all your eggs in one basket" advises against concentrating all your investments in a single position and encourages diversification to reduce the risk of losing everything if that one investment falters.

**2) What is an example of an idiosyncratic risk?**

A) A global economic downturn affecting multiple companies.

B) A company-specific event, like a management mistake or a natural disaster.

C) Market volatility impacting all stocks equally.

**Answer: B**

Explanation: Idiosyncratic risks are specific to a particular company or event, such as a management error or a natural disaster affecting one company, rather than affecting the broader market or multiple companies.

**3) In terms of diversification, what does "correlation" refer to?**

A) The similarity in stock prices for different companies in your portfolio.

B) The number of stocks in a portfolio.

C) The total value of assets in your investment portfolio.

**Answer: A**

Explanation: In the context of diversification, correlation refers to how closely the stock prices of different companies in your portfolio move together. Lower correlation indicates that they move somewhat independently.

**4) Which investment theory suggests that investing in uncorrelated assets increases the return per unit of risk taken?**

A) Behavioral Finance Theory.

B) Efficient Market Hypothesis (EMH).

C) Modern Portfolio Theory (MPT).

**Answer: C**

Explanation: Modern Portfolio Theory suggests that investing in uncorrelated assets (diversification) increases the return per unit of risk taken, making your portfolio more risk-efficient.

**5) According to the Law of Diminishing Marginal Benefit, what happens as you add more stocks to your portfolio?**

A) The benefit of diversification increases.

B) The benefit of diversification decreases.

C) The benefit of diversification remains constant.

**Answer: B**

Explanation: According to the Law of Diminishing Marginal Benefit, as you add more stocks to your portfolio, the reduction in portfolio volatility (the benefit of diversification) decreases.

**6) Why do active investors often prefer not to hold too many positions in their portfolios?**

A) To avoid diversification entirely.

B) To reduce their portfolio risk.

C) To focus on stocks they understand and can actively manage.

**Answer: C**

Explanation: Active investors may prefer not to hold too many positions to allow for focused analysis and active management of stocks they understand, rather than diluting their efforts.

**7) What type of risk is reduced by diversification?**

A) Market risk.

B) Currency risk.

C) Idiosyncratic risk.

**Answer: C**

Explanation: Diversification reduces idiosyncratic risk, which is the risk specific to individual companies, as it spreads your investments across different positions.

**8) How can you increase diversification in your portfolio without having to buy a large number of individual stocks?**

A) By actively managing each stock in your portfolio.

B) By holding cash equivalents only.

C) By investing in ETFs or mutual funds.

**Answer: C**

Explanation: Investing in ETFs or mutual funds allows you to achieve diversification without having to buy a large number of individual stocks. These funds hold a diversified portfolio of assets.

4. What is ETF?

 [What is ETF?](https://www.youtube.com/watch?v=GtlzSpoDags) (Video)

**1) What is an ETF?**

A) An investment vehicle designed to track the price movement of a specific basket of assets.

B) A type of bond.

C) A savings account at a bank.

**Answer: A**

Explanation: An ETF (Exchange-Traded Fund) is an investment vehicle that aims to replicate the price movements of a specific basket of assets.

**2) How are ETFs traded?**

A) Only in foreign stock exchanges.

B) In a manner similar to individual stocks.

C) Exclusively through mutual funds.

**Answer: B**

Explanation: ETFs are traded on US stock exchanges and can be bought and sold just like individual stocks.

**3) Why might an investor choose to buy shares of a gold ETF like GLD rather than physical gold?**

A) Physical gold is more affordable.

B) Physical gold is easier to store.

C) ETFs provide a cost-effective and less cumbersome way to invest in gold.

**Answer: C**

Explanation: ETFs offer a cost-effective and less cumbersome way to invest in assets like gold compared to purchasing physical gold.

**4) How can you invest in the Dow Jones Industrial Average without buying all 30 companies in the index?**

A) By purchasing a collection of mutual funds.

B) By directly acquiring shares of all 30 companies.

C) By buying shares of an ETF that tracks the Dow Jones.

**Answer: C**

Explanation: You can invest in the Dow Jones Industrial Average by buying shares of an ETF that tracks this index, such as DIA.

5. [Mutual Funds vs. ETFs - Which Is Right for You?](https://www.youtube.com/watch?v=Es3vXJ7GoV8) (Video)

**1) What is a key difference between mutual funds and ETFs?**

A) Mutual funds are *actively* managed, while ETFs are *passively* managed.

B) Mutual funds are ideal for self-directed investors.

C) ETFs set their share price once a day.

**Answer: A**

Explanation: This is a crucial distinction; mutual funds are actively managed by fund managers, while ETFs are passively managed, often tracking specific indices.

2) **Which investment option is suitable for investors who prefer professional management and a less hands-on approach?**

A) ETFs

B) Stocks

C) Mutual funds

**Answer: C**

Explanation: Mutual funds are actively managed by professionals, making them ideal for investors who don't want to actively manage their investments.

**3) How frequently do ETFs trade on stock exchanges?**

A) Once a month

B) Continuously throughout the day

C) Once a year

**Answer: B**

Explanation: ETFs trade like individual stocks, allowing investors to buy and sell them continuously during market hours.

4) **What is the primary benefit of ETFs for self-directed investors?**

A) Lower fees

B) Professional management

C) Limited control

**Answer: A**

Explanation: ETFs often have lower expense ratios compared to actively managed mutual funds, making them cost-effective for self-directed investors.

**5) How can you buy mutual funds and ETFs?**

A) Only through a broker

B) Only through a financial advisor

C) Through a broker, financial advisor, or directly from the fund company

**Answer: C**

Explanation: Both mutual funds and ETFs can be purchased through various channels, including brokers, financial advisors, and directly from the fund company.

**6) Which option is commonly used in 401k retirement plans?**

A) Stocks

B) ETFs

C) Mutual funds

**Answer: C**

Explanation: Mutual funds are frequently used in 401k retirement plans due to their professional management and diversified portfolios.

# 6. [ETF Battles: QQQ vs. SPY (youtube)](https://www.youtube.com/watch?v=otigPwGoOpY)

**1. Why is SPY considered the winner in the "cost" category?**

a) It charges a higher annual expense ratio than QQQ.

b) It charges a lower annual expense ratio than QQQ.

c) Both SPY and QQQ have the same expense ratio.

**Answer: b**

Explanation: SPY is considered the winner in the "cost" category because it has a lower annual expense ratio compared to QQQ.

**2. Which stock exchange is QQQ listed on?**

a) Nasdaq stock exchange

b) New York Stock Exchange

c) London Stock Exchange

**Answer: a**

Explanation: QQQ is listed on the Nasdaq stock exchange.

**3. How does QQQ's diversification compare to SPY's diversification?**

a) QQQ is more diversified as it holds 500 stocks.

b) QQQ is less diversified as it holds only 100 stocks.

c) QQQ and SPY have the same level of diversification.

**Answer: b**

Explanation: QQQ is less diversified than SPY, as it holds a smaller number of stocks (100) compared to SPY's 500 stocks.

**4. Why does SPY have a higher dividend yield compared to QQQ?**

a) SPY invests primarily in technology companies.

b) SPY charges a higher annual expense ratio.

c) SPY invests in dividend-rich sectors like real estate and utilities.

**Answer: c**

Explanation: SPY has a higher dividend yield because it invests in sectors like real estate and utilities that typically offer higher dividends.

**5. What is the primary reason for SPY's long-term performance advantage over QQQ?**

a) SPY has a higher expense ratio.

b) SPY is a Nasdaq-listed ETF.

c) SPY's diversified exposure to various industry groups.

**Answer: c**

Explanation: The main reason for SPY's long-term performance advantage is its diversified exposure to different industry groups, whereas QQQ is heavily concentrated in tech.

**6. Which ETF is declared the overall winner in the video?**

a) QQQ

b) SPY

c) Both QQQ and SPY are equally winners.

**Answer: b**

Explanation: SPY is declared the overall winner in the text's analysis due to its lower costs, superior diversification, higher dividend yield, and better long-term performance.

#  7. [How A Ponzi Scheme Works](https://www.youtube.com/watch?v=VXRkfqw67GE) (youtube)

**1. What is the primary characteristic of a Ponzi scheme?**

a) Consistent and legitimate profits

b) Amazing returns that beat the market

c) A pyramid structure of paying earlier investors with funds from newer investors

**Answer: c**

Explanation: The primary characteristic of a Ponzi scheme is that it operates by using funds from new investors to pay returns to earlier investors, creating a pyramid-like structure.

2. **How could new investors be attracted to a Ponzi scheme?**

a) By investing in the stock market and generating consistent profits

b) By promising amazing returns that surpass all other investors in the market

c) By providing financial education and investment advice

**Answer: b**

Explanation: Ponzi schemes typically attract new investors by promising unusually high and consistent returns on their investments.

3**. What happens when a Ponzi scheme can no longer attract enough new money to pay earlier investors?**

a) The scheme collapses as earlier investors cannot be paid

b) The scheme continues to operate with profits from investments

c) The scheme adapts by finding alternative sources of income

**Answer: a)**

Explanation: When a Ponzi scheme can't bring in enough new investors' money to pay earlier investors, it collapses as it can't fulfill its promises.

Part IV: Behavior Finance

1. [Behavioral Finance | Investor Irrationality (youtube)](https://www.youtube.com/watch?v=utLIlOAwLeU)
2. Anchoring  <https://www.youtube.com/watch?v=eqTLPtPMKLs>
3. Mental Accounting  <https://www.youtube.com/watch?v=1cQUlmdQdOs>
4. Confirmation Bias  <https://www.youtube.com/watch?v=yxDDrEA497E>
5. Gambler’s fallacy  <https://www.youtube.com/watch?v=f_MUjkr0yu4>
6. Herding   <https://www.youtube.com/watch?v=L8aRm82r8l8>
7. Overconfidence   <https://www.youtube.com/watch?v=E0X3xxV8upI>
8. Disposition effect (prospect theory)  <https://www.youtube.com/watch?v=sM91d5I36Po>

Sample Questions:

1) **What is anchoring in decision making?**

A. A tendency to rely on reference points, even if they are irrelevant.

B. Choosing the most popular option.

C. Trusting your gut feeling.

**Answer: A**

Explanation: Anchoring is the tendency to attach your thoughts to a reference point, even if that reference point has no logical relevance to the decision at hand.

**2) How can you avoid anchoring in investment decisions?**

A. Use any figures to evaluate a stock's potential.

B. Base decisions solely on benchmarks.

C. Evaluate a company from various perspectives to get a more accurate picture.

**Answer: C**

Explanation: To avoid anchoring, you should evaluate a company from a variety of perspectives to derive the truest picture of the investment landscape.

**3) What is mental accounting in personal finance?**

A. Separating money into different accounts based on subjective criteria.

B. Keeping all your money in one account.

C. Spending money impulsively.

**Answer: A**

Explanation: Mental accounting is the practice of separating your money into different accounts based on subjective criteria, like the source of the money and its intended use.

4) **How can you avoid mental accounting pitfalls?**

A. Keep all your money in a single account.

B. Have a budget, and to watch your spending more closely

C. Spend money impulsively without a plan.

**Answer: B**

Explanation:  To prevent mental accounting errors, it's essential to establish a budget and closely monitor your expenses. Additionally, having a strategy for managing unexpected income can prevent squandering it on unnecessary purchases.   separate your money into multiple accounts for different purposes.

5) **What is confirmation bias?**

A. A tendency to seek information that supports your beliefs and ignore opposing views.

B. A neutral assessment of all available information.

C. A complete disregard for any information.

**Answer: A**

Explanation: Confirmation bias is the tendency to selectively filter information that supports your existing beliefs while ignoring opposing views.

6) **How can confirmation bias impact decision making in investing?**

A. It leads to unbiased decision making.

B. It generates faulty decision making by focusing on information that supports existing beliefs.

C. It encourages diversification of investments.

**Answer: B**

Explanation: Confirmation bias can lead to faulty decision making by focusing on information that supports existing beliefs, potentially ignoring critical information.

7) **What is the gambler's fallacy?**

A. Believing that random events are independent of each other.

B. Always making bets based on intuition.

C. Believing that future events are influenced by past events.

**Answer: C**

Explanation: The gambler's fallacy is the belief that future random events are influenced by past events, which is not necessarily true.

**8) How can you avoid falling for the gambler's fallacy in investing?**

A. Make investment decisions based on intuition.

B. Rely on fundamental or technical analysis before making decisions.

C. Always believe that past performance predicts future outcomes.

**Answer: B**

Explanation: To avoid the gambler's fallacy, investors should base their decisions on fundamental or technical analysis rather than relying on intuition or past performance.

**9) What is herding in the context of decision making?**

A. The tendency to make independent decisions.

B. The tendency to mimic the actions of a larger group.

C. The avoidance of social pressure.

**Answer: B**

Explanation: Herding refers to the tendency to mimic the actions of a larger group, often due to social pressure or a belief that a large group cannot be wrong.

**10) Why do individuals often engage in herding behavior?**

A. Due to a desire to conform and be accepted by a group.

B. Because they are naturally independent thinkers.

C. Because they believe that following a large group is always profitable.

**Answer: A**

Explanation: Individuals often engage in herding behavior due to a desire to conform and be accepted by a group.

**11) What is overconfidence in decision making?**

A. Realistically trusting in one's abilities.

B. Having an overly optimistic assessment of one's knowledge or control over a situation.

C. Having no confidence at all.

**Answer: B**

Explanation: Overconfidence refers to having an overly optimistic assessment of one's knowledge or control over a situation.

**12) What is the disposition effect in investing?**

A. The tendency to hold on to *losing* stocks and sell *winning*stocks.

B. The tendency to sell winning stocks and buy losing stocks.

C. A balanced approach to buying and selling stocks.

**Answer: A**

Explanation: The disposition effect is the tendency to hold on to winning stocks for too long and sell losing stocks too soon.

13) **How can you avoid the disposition effect in decision making?**

A. Focus on one large gain and ignore smaller gains.

B. Think of losses as one large loss to minimize negative feelings.

C.  To steer clear of the disposition effect, one effective approach is to establish investment goals that are in harmony with your financial objectives.

**Answer: C**

 Part V: Call and Put Options

 [**Call Options Explained: Options Trading For Beginners (youtube)**](https://www.youtube.com/watch?v=kC28MuQPyu8)

**1. How many shares does an options contract typically represent?**

a) 10 shares

b) 50 shares

c) 100 shares

**Answer: c**

Explanation: Options contracts typically represent 100 shares.

**2. In the video, what is the significance of an options contract expiring sooner?**

a) It makes the contract more expensive.

b) It makes the contract cheaper.

c) It doesn't affect the contract price.

**Answer: b**

Explanation: Options contracts with shorter durations are generally cheaper.

**3. What is the main risk associated with options trading?**

a) Risk of losing the entire investment

b) No risk involved

c) Guaranteed profits

**Answer: a**

Explanation: The video emphasizes that there is a risk of losing the entire investment with options trading.

**4. Which scenario results in a worthless options contract?**

a) Stock price below the strike price for a call option

b) Stock price above the strike price for a call option

c) Stock price at the strike price for a call option

**Answer: a**

Explanation: If the stock price is below the strike price for a call option, the contract is worthless.

**5. How can you make a profit with a call option?**

a) When the stock price is below the strike price

b) When the stock price is above the strike price

c) When the stock price is exactly at the strike price

**Answer: b**

Explanation: You make a profit with a call option when the stock price is above the strike price.

**6. What are options contracts for?**

a) 1 share

b) 10 shares

c) 100 shares

**Answer: c**

Explanation: Options contracts typically represent 100 shares.

**7. How does the duration of an options contract affect its price?**

a) Longer duration makes the contract cheaper

b) Longer duration makes the contract more expensive

c) Duration has no effect on the contract price

**Answer: b**

Explanation: Options contracts with longer durations are typically more expensive.

**8. What is the main way to make a profit with call options?**

a) When the stock price goes up

b) When the stock price goes down

c) When the stock price stays the same

**Answer: a**

Explanation: Call options are profitable when the stock price rises.

**9. How is the price of an options contract determined?**

a) It is fixed by the platform

b) It is based on the number of shares in the contract

c) It depends on the strike price and other factors

**Answer: c**

Explanation: The price of an options contract is influenced by factors like the strike price.

**10. What is one way to realize a profit with a call option without buying the actual stock?**

a) Exercise the option and buy the stock

b) Sell the options contract itself

c) Wait for the contract to expire

**Answer:  b**

Explanation: You can profit by selling the options contract without purchasing the stock.

[**Put Options Explained: Options Trading For Beginners (youtube)**](https://www.youtube.com/watch?v=tlcCPX4t9y0)

**1. What is the primary purpose of a put option?**

A. To sell a stock at a predetermined price

B. To buy a stock at a predetermined price

C. To profit from a stock's rising price

**Answer: A.**

Explanation: A put option gives the holder the right to sell a stock at a specified price, which is the primary purpose of a put option.

**2. How does one profit from a put option?**

A. By selling the option for a higher premium

B. By buying the stock and selling it at a higher Strike price

C. By buying the stock and selling it at a lower Strike price

A**nswer: B.**

Explanation: **Profits are made when the stock's market price falls, allowing the holder to buy the stock at a lower price and sell it at the higher strike price.**

**3. If the stock's price remains above the strike price, what happens to the put option?**

A. It becomes more valuable

B. It becomes worthless

C. The premium increases

**Answer: B.**

Explanation: If the stock's price stays above the strike price, there's no incentive to sell it at a lower price, so the put option becomes worthless.

**4. What happens to the value of a put option with more time until expiration?**

A. It becomes more valuable

B. It becomes less valuable

C. Its value remains the same

**Answer: A.**

Explanation: Put options with more time until expiration are more valuable because there's a longer time for the stock's price to potentially fall below the strike price.

**5. Which offer is better in terms of time to expiration?**

A. Offer to sell within one week

B. Offer to see within two weeks

C. Offer to sell within one month

**Answer: C**

Explanation: Offer number three, with a longer time frame of one month, is better because it provides more time for the stock's price to potentially fall.

**6. Which strike price is more valuable in the example?**

A. $35

B. $40

C. $45

**Answer: C.**

Explanation: In the example, a higher strike price is more valuable because it allows the holder to sell the stock for a higher price if needed.

**7. How many shares are typically included in one options contract?**

A. 10 shares

B. 100 shares

C. 1,000 shares

**Answer: B.**

Explanation: Options contracts are typically based on 100-share increments.

**8. If you want to buy 10 put options, how much would it cost you if each option costs $45?**

A. $4.50

B. $450

C. $4,500

**Answer: B.**

Explanation: To calculate the cost, you multiply the cost of one option by the number of options (10 x $45 = $450).

**9. What is the primary risk associated with buying a put option?**

A. Losing the entire investment

B. Missing out on potential gains

C. Increased taxes

**Answer: A.**

Explanation: The risk with buying a put option is that if the stock's price doesn't fall below the strike price, you lose the premium paid.

**10. What is the main advantage of using a put option for hedging?**

A. It guarantees profits

B. It allows for unlimited gains

C. It protects against potential losses

**Answer: C**

Explanation: Hedging with put options helps protect investments from potential losses in a declining market.

**11. Which feature of a put option affects its price and value the most?**

A. The expiration period

B. The strike price

C. The number of shares in a contract

**Answer: A.**

Explanation: The expiration period has a significant impact on a put option's price and value, with longer periods generally making the option more expensive.

**12. How is the price of a put option determined in the options market?**

A. It is set by the buyer.

B. It is set by the exchange.

C. It is determined by market supply and demand.

**Answer: C.**

Explanation: The price of an option is determined by market forces, primarily supply and demand.

**13. What is the primary objective when buying a put option?**

A. To maximize the premium paid

B. To profit from a stock's price increase

C. To protect against a stock's price decline

**Answer: C.**

Explanation: The main objective of buying a put option is to protect against potential losses from a stock's price decline.

Short Answer Questions (total 10 points)

Sample question 1:

You purchased a call option for a stock with a strike price of $50. The current stock price is $55, and you paid a premium of $3 for the call option. Calculate the profit for the call option.

Answer:

Profit = (Stock Price - Strike Price) - Premium Paid

Given the information:

Profit = ($55 - $50) - $3 = $2

Sample question 2:

You purchased a put option for a stock with a strike price of $50. The current stock price is $45, and you paid a premium of $3 for the put option. Calculate the profit for the put option.

Answer:

Profit = (Strike Price - Stock Price) - Premium Paid

Given the information:

Profit = ($50 - $45) - $3 = $2