**Hashemite University Department of Finance**

**Financial Derivatives / Summer I 2015-2016**

**Homework set 1 /CH1 Due Date: 5/6/2016**

**Q (1): what is the difference between (a) entering into a long futures contract when the futures prices is $50 and (b) taking a long position in a call option with a strike price of $50.**

**Q (2): an investor enters into a short forward contract to sell £100,000 for U.S $ at an exchange rate of $/£=1.4000. How much does the investor gain or lose if the exchange rate at the end of the contract is (a) 1.3900 (b) 1.4200?**

**Q (3): suppose that you write a put option contract with strike price of $40 and an expiration date in three months with contract size of 100 shares. What have you committed yourself to? How much could you gain or lose?**

**Q (4): compare the over-the-counter market and the organized exchange-traded market?**

**Q (5): Carefully, explain the differences between (a) hedging, (b) speculating and (c) arbitraging.**

**Q (6): Explain how the options contract serves as a disaster hedge.**