**Hashemite University Department of Finance**

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

**Homework set 2 /CH2 Due Date: 8/6/2016**

**Q (1): Explain: "spot and futures prices converge at maturity date and diverge otherwise"**

**Q (2): Explain each of the following terms:**

* **Open interest**
* **Daily Settlement**
* **Initial margin**
* **Maintenance Margin**
* **Margin call**
* **Limit order**
* **Stop order**
* **Stop – limit order**
* **Good – till – canceled order**

**Q (3): suppose, on Feb 21, 2016 an investor enters into a short futures contract to sell July silver for $27.20 per ounce. The size of the contract is 5000 ounces. The initial margin is $4000, and the maintenance margin is $3000.**

* **What is the margin ratio?**
* **What change in the futures price will lead to a margin call?**
* **What happens if the investor does not meet the margin call?**
* **Given the settlement prices on Feb 22, Feb 23, and Feb 24 are $28, $27, and $26.8 respectively. Construct a trading account bank statement showing all recording from Feb 21 – Feb 24.**