

CFA® SAMPLE QUESTION – LEVEL I

Derivatives

Q: An investor purchases a 1-month out-of-the-money American call option on a stock. A week later, the stock price is less than the call option strike price. The time value of the option is most likely:

CORRECT ANSWER:

(b) A positive amount.

An American option will sell for more than its intrinsic value, implying a positive time value.

European - European-style option contracts may only be exercised at the option's expiration date. Thus they can never be worth more than an American-style option with the same underlying strike price and expiration date.

American - American-style option contracts can be exercised at any time up to the option's expiration. Under certain circumstances early exercise may be advantageous to the option holder.

Bermudan - Bermudan-style options contracts may only be exercised on specified dates. Bermudan-style options are common in the interest rate options and swaps markets



CFA Society Hong Kong
Candidate Services

