

CFA® SAMPLE QUESTION - LEVEL I

Derivatives

Q: For a European call option $X = 25$ and a European call option $X = 30$ on the same stock with the same time to expiration it is true that, when the 30 call is at- or in-the-money, the strongest statement we can make is the:

CORRECT ANSWER:

Ⓒ value of the 25 call is greater than the value of the 30 call.

If the 30 call is at- or in-the-money at expiration, the strongest true statement is that the value of the 25 call is greater than the value of the 30 call.

Remember the nature of "Call" Option

Even if the options are out of the money, the 25 call will be more valuable than the 30 call before expiration (*although if they are far out of the money and close to expiration, both might have a value of effectively zero*).



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