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QUESTION 1

Options can be very complicated. For example, some options have strike prices that vary over time or under different market conditions. Other options have lives that vary depending on stock prices and market conditions. There are even _____, which are options on option, and _____, which set price boundaries.

- A. Strike, barrier option
- B. Risk free options, barrier options
- C. Compound options, barrier options
- D. Compound options, volatile options

Correct Answer: C

QUESTION 2

One way or the other, the financial benefits of ownership of an interest in a business enterprise must come from the following sources EXCEPT:

- A. Dividends, distributions, or other type of cash flow) From operations, or From investments (e.g. interest)
- B. Liquidation or hypothecation of assets
- C. Loan/Debt
- D. Sale of interest

Correct Answer: C

QUESTION 3

If a \$1000 per share value of convertible bond is issued for \$1000, and is convertible into 20 shares of issuer's common stock that pays no dividend, there will be no economic benefit in converting the debt to stock as long as the common stock is selling for:

- A. Less than \$50 per share
- B. \$50 per share
- C. \$more than \$50 per share
- D. Less than \$25 per share

Correct Answer: A

QUESTION 4



_____ is computed by reverse re-engineering the price of a publicly traded option on the same underlying stock. This is the one when used in the Black-Scholes model along with the other four known variables results in a calculated value that matches the market price of the publicly traded options.

- A. Implied price volatility
- B. Volatility of closely held companies
- C. Historical price volatility
- D. Both A and C

Correct Answer: A

QUESTION 5

Income that is eventually derived from the qualified stock option (QSO) is determined to be ordinary income if the receipt exercises the option to buy the underlying securities and subsequently sells the securities within 12 months. To get a tax break:

- A. The owner must hold the shares for at least one year
- B. The reader should consult a tax advisor regarding any possible tax consequences
- C. Business valuation professional is to estimate the fair market value
- D. The ISO must have been granted at least two years before the stock is sold

Correct Answer: AD

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