

Question #1 of 50

Question ID: 1706422

A fixed income arbitrage strategy that tries to profit when one fixed income security is mispriced relative to another fixed income security with the same maturity is called a:

- A)** spread trade.
 - B)** duration trade.
 - C)** convexity trade.
 - D)** yield curve trade.
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Question ID: 1706402

Which of the following is not a source of return in a convertible bond arbitrage strategy?

- A)** Dividends paid on the issuer's stock.
 - B)** Difference in the change in value between the price of the bond and the price of the stock.
 - C)** Short rebate.
 - D)** Coupon payments made by the convertible bond.
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Question ID: 1706386

The classic relative value strategy trade relies on the assumption that two related asset prices will:

- A)** converge to normal prices.
 - B)** decrease their correlations in downward moving markets.
 - C)** increase their correlations in upward moving markets.
 - D)** diverge and have returns in both tails.
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Question ID: 1706413

The classic dispersion trade takes a long position in:

- A) individual equities and a short position in a related index option.
 - B) options on individual equities and a short position in a related index option.
 - C) an index option and a short position in options on individual equities.
 - D) an index option and a short position in individual equities.
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Question ID: 1706400

The classic convertible bond arbitrage trade would consist of which of the following?

- A) Short sale of a firm's common stock and the purchase of the same firm's convertible bonds.
 - B) Short sale of a firm's convertible bonds and the purchase of the same firm's common stock.
 - C) Short sale of both a firm's convertible bonds and common stock.
 - D) Short sale of a firm's convertible bonds and the purchase of a competitor's convertible bonds.
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Question ID: 1706411

Barbie Petit, CAIA, has established a 30-day variance swap on the returns of the S&P 500 Index with a vega notional value of \$100,000. The strike price of the swap is 9.0, which corresponds to a 9% annualized variance. After the 30-day reference period, the realized annualized variance in the index is 8.1. What is the final payoff of this variance swap?

$$\text{variance swap payoff} = \frac{\text{vega notional value} \times (\text{realized variance} - \text{strike variance})}{2 \times \sqrt{\text{strike variance}}}$$

- A) -\$20,000.
- B) -\$15,000.
- C) \$15,000.
- D) -\$5,000.

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Question ID: 1706391

Suppose a hedge fund manager establishes a delta-neutral position with a convertible bond and short position in the underlying stock. Assume the convertible bond has a face value of \$950 can be converted into one share of stock currently selling for \$900. The value-weighted sum of all deltas for all positions equals 0 and the positions are summarized as follows for the expected price movements:

Stock price	\$840	\$870	\$900	\$930	\$960
Convertible bond price	\$925	\$935	\$950	\$965	\$985
Long 1 bond and short 0.5 equity shares	\$505	\$500	\$500	\$500	\$505

The hedged position shown above will result in a profit if:

- A)** negative gamma that results when the underlying asset experiences a large change in price.
- B)** positive gamma occurs due to large changes in the stock price.
- C)** negative delta occurs due to a change in the relationship between the convertible bond and underlying stock.
- D)** there are only small moves (\$30 or less) in the stock price.

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Question ID: 1706409

Which of the following most accurately describes volatility arbitrage strategies? These strategies:

- A)** capitalize on short-term volatility clustering.
- B)** structure trades based on implied volatility.
- C)** capitalize on the mispricing of VIX options.
- D)** assume that volatility clustering persists for extended periods.

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Question ID: 1706403