Series 3 – The National Commodities Futures Test Practice Test Questions and Answers

1. A rolling hedge involves:

A) Closing a near-term futures position and opening a new position in a deferred month
B) Holding multiple futures contracts in different commodities
C) Converting a speculative position into a hedge
D) Adjusting the number of contracts as exposure changes

2. A spread trade in futures involves:

A) Simultaneously buying one contract and selling a related contract
B) Buying the maximum number of contracts allowed
C) Taking only a long position
D) Selling a futures contract without owning the underlying commodity

3. The hedge ratio is used to determine:

A) How many futures contracts are needed to offset cash market exposure
B) The maximum loss on a futures position
C) The commission charged on a hedge transaction
D) The minimum holding period for a futures contract

4. What is a 'cross hedge' in commodity futures?

A) Using a futures contract in a related commodity when no exact futures contract exists
B) Hedging in two different countries simultaneously
C) Taking opposing positions in the same contract month
D) Using options instead of futures to hedge

Answers: 1-A 2-A 3-A 4-A