Materiál na 27.2.08

A: Futures

TASK Match the words in the box with the definitions below:

to hedge	commodities	over-the-counter	forwards	spot price	futures

1. the price for the immediate purchase and delivery of commodity
2. adjective describing a contract made between two businesses, not using an exchange
3. contracts for not-standardized quantities or time periods
4. physical substance, such as food, fuel and metals, that can be bought or sold with futures contracts
5. to protect yourself against loss
6. contracts to buy or sell standardized quantities

TASK Complete the following exercise about three types of futures *(commodity futures, interest rate futures, currency futures)* using a word from the box.

a banks	d food manufactures
b companies	e importers
c farmers	f investors

1. Commodity futures allow ___________ to charge a consistent price for their products.
2. Interest rate futures allow ____________ to be sure of the rate they will get on bonds which could be issued at a different rate in the future.
3. Interest rate futures allow ___________________ to know at what price they can borrow money to finance new projects.
4. Commodity futures allow _______________ to make plans knowing what price they will get for their crops. (=plodiny)
5. Interest rate futures ______________ to offer fixed lending rates.
6. Currency futures allow ___________________ to remove exchange rate risks from future international purchases.

TASK Complete the following exercise with words of your choice:

Futures are ***1.*** _________________ contracts – contracts which are for ***2.*** ____________ quantities (such as one ton of copper) and ***3.*** _______________ time periods (normally three, six or nine months) – that are traded on a special exchange. Forwards are individual, ***4.*** _________________ contracts between two parties, traded ***5.*** __________________ = directly, between two companies or financial institutions, rather than through an exchange. The futures price for a commodity is normally higher than its ***6.*** ________________ = the price that would be paid for immediate delivery.

B: Derivatives

Complete the gaps with words of your choice:

Derivatives are financial products whose value depends on – or is ***1.*** ____________________ from – another financial product, such as a stock, a stock market index, or interest rate payments. They can be used to: a) manage the risks associated with securities, b) to protect against fluctuations in value, or c) to ***2.*** __________________ . The main types of derivatives are options and swaps.

Options are like futures except that they give the ***3.*** ______________ = give the possibility, but not the ***4.*** ____________________ – to buy or sell an asset in the future (e.g. 1,000 General Electric stocks on 31 March). If you buy a call option it gives you the right to buy an asset for a specific price, either at any time before the option ends or on a specific future date. However, if you buy a put option, it gives you the right to sell an asset at a specific price within a specified period or on a specific future date. Investors can buy put options to ***5.*** _______________ against falls in the price of stocks.

Selling or writing options contracts involves the obligation either to deliver or to buy assets, if the buyer ***6.*** __________________ the option = chooses to make the trade. For this seller (= ***7.*** _____________) receives a fee called a ***8.*** ________________ from the buyer. But writers of options do not expect them to be exercised. For example, if you expect the price of a stock to rise from 100 to 120, you can buy a ***9.*** _________________ giving the right to buy the stock at 110. If the stock price does not rise to 110, you will not exercise the option, and the seller of the option will gain the premium. The stock is trading at ***10.*** _______________ the strike price or the exercise price of 110, the price stated in the option. If on the other hand, the stock price rises above 110, you can exercise the option and you will gain the difference between the current market price and 110. If the market moves in an unexpected direction, the writers of options can ***11.*** ________________ enormous amounts of money.

TASK Complete the definitions:

1. ______________________ give the right to sell securities at a fixed price within a specified period.
2. _____________________ can be used to speculate on interest rate movements.

TASK Match the two parts on the sentences:

1 The price of a derivative product depends on	A future price changes.
2 Options can be used to hedge against	B the right to buy something.
3 A call option gives its owner	C the price of another financial product.
4 A put option gives its owner	D the right to sell something.