2025 CFORCE Options Class Marker Practice Test (Sample)

Study Guide

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Questions

1. **How does an increase in "time value" affect option premiums?**
   - **A. It leads to lower premiums**
   - **B. It has no effect**
   - **C. It generally increases premiums**
   - **D. It reduces intrinsic value**

2. **What characterizes a "bullish spread" in options trading?**
   - **A. Buying two call options at different strike prices**
   - **B. Selling one put option and buying another at a higher strike**
   - **C. Purchasing one option and selling another with a higher strike price**
   - **D. Engaging in shorting two options simultaneously**

3. **What does a Delta of 0.5 indicate about an option?**
   - **A. The option's price is expected to change by $1 for every $1 change in the underlying asset**
   - **B. The option's price will remain stable regardless of the underlying asset's price**
   - **C. The option's price will change by $0.50 for every $1 change in the underlying asset**
   - **D. The option is not likely to be exercised**

4. **Under what circumstance is justification unavailable when an actor uses force according to the Penal Code?**
   - **A. When the actor threatens another without provocation**
   - **B. When the actor recklessly injures an innocent third person**
   - **C. When the actor is attacked first**
   - **D. When the actor uses force in self-defense**

5. **What type of force can an observer of a sexual assault use to stop the assault if retreat is not an option?**
   - **A. Physical force**
   - **B. Deadly force**
   - **C. Verbal force**
   - **D. Psychological force**

6. What is "Gamma" in relation to options?

- **A. A measure of an option’s price based on market sentiment**
- **B. A measure of the effect of time decay on an option**
- **C. A measure of the sensitivity of Delta to changes in the underlying asset’s price**
- **D. A measure of implied volatility**

7. When is force considered immediately necessary to protect oneself?

- **A. When the opponent is physically larger**
- **B. When facing an unruly crowd**
- **C. When reasonably believing in an imminent threat**
- **D. When attempting to make a statement**

8. What happens when an option approaches expiration?

- **A. The option’s intrinsic value decreases**
- **B. The option may lose its extrinsic value due to theta decay**
- **C. The option's strike price becomes irrelevant**
- **D. The option automatically gets assigned**

9. Which type of options typically have longer expiration dates?

- **A. Standard options**
- **B. American options**
- **C. European options**
- **D. Exotic options**

10. What term describes "a person who fails to return to custody following a temporary leave for a specific purpose"?

- **A. Escape**
- **B. Fugitive**
- **C. Abscond**
- **D. Runaway**

Answers

1. C
2. C
3. C
4. B
5. B
6. C
7. C
8. B
9. C
10. A

Explanations

1. How does an increase in "time value" affect option premiums?

A. It leads to lower premiums

B. It has no effect

C. It generally increases premiums

D. It reduces intrinsic value

An increase in "time value" generally increases option premiums because time value represents the potential for an option to become more profitable as the expiration date approaches. Options are financial instruments that provide the right, but not the obligation, to buy or sell an underlying asset at a specified price before a particular expiration date. The time value component of an option's premium is based on the amount of time remaining until expiration, which can influence the likelihood of the underlying asset's price moving favorably. As the time until expiration increases, there is a greater chance that the price of the underlying asset could fluctuate, allowing for the possibility of increased intrinsic value. This uncertainty and potential for gain enhance the option's attractiveness, resulting in higher premiums. Hence, if the time value rises, the premiums of options are likely to reflect that value by increasing, assuming all other factors remain constant. This relationship is essential for traders and investors to understand, as it underscores how time can affect the pricing of options and informs their strategies.

2. What characterizes a "bullish spread" in options trading?

A. Buying two call options at different strike prices

B. Selling one put option and buying another at a higher strike

C. Purchasing one option and selling another with a higher strike price

D. Engaging in shorting two options simultaneously

A bullish spread in options trading is characterized by the strategy of purchasing one option and selling another with a higher strike price. This approach typically involves buying a call option while simultaneously selling another call option that has a higher strike price. The primary goal of this strategy is to benefit from an expected increase in the price of the underlying asset. By executing this strategy, the trader limits both the potential gains and losses. The purchase of the call option allows for profit if the underlying asset rises above the lower strike price, while the sale of the higher strike price call option helps offset the cost of the purchased option. This type of spread creates a defined risk profile. The structure of this strategy effectively capitalizes on upward market movements while managing risk components, as the maximum loss is limited to the net premium paid for the spread, and the maximum gain occurs if the price of the underlying asset is at or above the higher strike price at expiration.

3. What does a Delta of 0.5 indicate about an option?

A. The option's price is expected to change by $1 for every $1 change in the underlying asset

B. The option's price will remain stable regardless of the underlying asset's price

C. The option's price will change by $0.50 for every $1 change in the underlying asset

D. The option is not likely to be exercised

A Delta of 0.5 signifies that the option's price is expected to change by $0.50 for every $1 change in the price of the underlying asset. Delta is a measure of how much the price of an option is expected to move in relation to a change in the price of the underlying asset. In this case, a Delta of 0.5 indicates a positive correlation, meaning that if the underlying asset increases by $1, the option's price is expected to increase by $0.50. This highlights the sensitivity of the option to changes in the underlying asset's price, reflecting its potential for profit or loss under varying market conditions. Understanding Delta is critical for options traders as it helps gauge the likelihood of exercising the option and aids in risk management strategies.

4. Under what circumstance is justification unavailable when an actor uses force according to the Penal Code?

A. When the actor threatens another without provocation

B. When the actor recklessly injures an innocent third person

C. When the actor is attacked first

D. When the actor uses force in self-defense

Justification for using force is rooted in the principle that individuals may defend themselves or others from imminent harm. Under the Penal Code, certain actions may negate the availability of justification, particularly when it comes to the failure to exercise reasonable care. The scenario where an actor recklessly injures an innocent third person illustrates a critical distinction. Justification is typically unavailable in situations where, during an act of force, the individual causes harm to someone who is non-threatening and uninvolved in the conflict (the innocent third person). This is because the law requires a person to act with a certain level of care and awareness; recklessness indicates a disregard for that responsibility. When an actor does not act within the bounds of reasonable care and their actions lead to unnecessary harm to bystanders, they forfeit the justification provided under self-defense or other lawful uses of force. In contrast, situations involving threats without provocation, being attacked first, or using force in self-defense generally fall within accepted bounds of justification if the criteria are met for immediacy and necessity.

5. What type of force can an observer of a sexual assault use to stop the assault if retreat is not an option?

A. Physical force

B. Deadly force

C. Verbal force

D. Psychological force

The focus of the question is on the type of force an observer can use to intervene in a sexual assault when retreat is not an option. The correct answer indicates that deadly force may be justified in extreme situations where an individual believes that the life of someone else is in imminent danger. In scenarios involving sexual assault, if there is a reasonable belief that the assault could result in serious bodily harm or death, an observer might be permitted to use deadly force as a last resort to protect the victim. This type of intervention is typically subject to strict legal standards, requiring a clear evaluation of the threat level and the potential consequences of intervening. The other types of force—physical, verbal, and psychological—while they can be valid methods of intervention, may not always be sufficient in life-threatening situations. The effectiveness of non-lethal forms of intervention can vary significantly depending on the circumstances, making deadly force a more decisive option when no other means are viable for stopping the assault.

6. What is "Gamma" in relation to options?

A. A measure of an option’s price based on market sentiment

B. A measure of the effect of time decay on an option

C. A measure of the sensitivity of Delta to changes in the underlying asset’s price

D. A measure of implied volatility

Gamma is defined as the measure of the sensitivity of Delta to changes in the price of the underlying asset. Delta itself indicates how much an option's price is expected to change for a $1 change in the underlying asset's price. However, Delta can change as the underlying asset's price fluctuates, and Gamma quantifies this relationship. In practical terms, Gamma helps traders understand how stable their Delta is as market conditions change. A high Gamma value indicates that Delta is likely to change quickly as the underlying price moves, while a low Gamma suggests that Delta will remain more stable. This sensitivity can be particularly important for options traders managing their portfolios and hedging their positions. The other concepts mentioned, such as market sentiment, time decay, and implied volatility, relate to different aspects of options trading but do not describe what Gamma specifically measures. Understanding Gamma is crucial for options trading as it allows traders to predict how their positions might react to price changes in the underlying asset effectively.

7. When is force considered immediately necessary to protect oneself?

A. When the opponent is physically larger

B. When facing an unruly crowd

C. When reasonably believing in an imminent threat

D. When attempting to make a statement

Force is considered immediately necessary to protect oneself when there is a reasonable belief in an imminent threat. This concept is rooted in self-defense laws, which stipulate that individuals have the right to protect themselves from harm when they perceive a clear and present danger. The immediacy of the threat is crucial; it means that the danger is not hypothetical or distant, but rather impending and requiring a prompt response. In situations where someone genuinely believes that they are about to be harmed, the rationale for using force becomes evident. The law often allows for a proportional response to the threat presented, with the understanding that individuals cannot always wait for an attack to occur before taking action to safeguard themselves. Being confronted with an imminent threat would justify the use of force as a defense mechanism aimed at ensuring personal safety. In contrast, considerations like the size of an opponent or the presence of an unruly crowd may create fear or unease, but they do not alone establish a basis for immediate self-defense unless those conditions are tied to a recognized imminent threat. Similarly, attempting to make a statement typically does not warrant defensive force, as it lacks the element of necessity stemming from a personal danger.

8. What happens when an option approaches expiration?

A. The option's intrinsic value decreases

B. The option may lose its extrinsic value due to theta decay

C. The option's strike price becomes irrelevant

D. The option automatically gets assigned

When an option approaches expiration, it experiences a phenomenon known as theta decay, which refers to the reduction in the option's extrinsic value as time passes. Extrinsic value, often referred to as time value, is the portion of the option's overall value that is attributed to the time remaining until expiration. As the expiration date nears, there is less time for the underlying asset to move significantly, leading to a decrease in this extrinsic value. This process occurs because options lose value over time due to the uncertainty of the underlying asset's performance. If an option is out-of-the-money as it approaches expiration, it may lose nearly all its extrinsic value, reflecting the reduced likelihood of it becoming profitable. Understanding this concept is critical for options traders as they develop strategies around expiration timelines.

9. Which type of options typically have longer expiration dates?

A. Standard options

B. American options

C. European options

D. Exotic options

European options are known for typically having longer expiration dates compared to other types of options. This characteristic is significant because European options can often be part of strategies that involve a longer investment horizon. While standard options can have varying expiration dates, European options specifically are structured in a way that they generally allow for a longer duration before they expire, giving investors more time for their investment thesis to play out. Moreover, although American and exotic options can also have longer durations, they are not defined primarily by this feature like European options are. American options offer the flexibility to be exercised at any time before expiration, which can be advantageous but does not necessarily pertain to expiration length. Exotic options vary widely in structure and expiration but exemplify more complexity in their characteristics, often differing from the traditional definitions associated with standard and American options. Thus, the nature of European options distinctly aligns with the concept of longer expiration timelines.

10. What term describes "a person who fails to return to custody following a temporary leave for a specific purpose"?

A. Escape

B. Fugitive

C. Abscond

D. Runaway

The correct term for "a person who fails to return to custody following a temporary leave for a specific purpose" is abscond. This term specifically refers to someone who has left a place they were expected to stay, often in violation of laws or regulations, such as a person on temporary leave from custody. Considering the context of the question, absconding implies that the individual had permission or a specific condition under which they could be away from custody but chose not to return. This accurately describes the scenario outlined in the question. Escape would usually refer to someone who has broken free from custody or confinement without permission, rather than failing to return after a temporary leave. A fugitive denotes someone who is on the run from law enforcement, typically after being accused or convicted of a crime, but does not specifically imply the context of a temporary leave. On the other hand, a runaway often refers to someone, usually a minor, who leaves their home or guardianship without permission. All these terms do not convey the specific circumstances of failing to return after a temporary leave like abscond does.