Week 1: What is Volatility? Homework

1. Which is true about Historical Volatility?
    a. Only increases when the underlying falls in price
    b. Measure guarantees future price changes
    c. Statistical measure of dispersion of returns
    d. Calculated to give the average close prices over a given time period

2. True/False: Implied Volatility is a predictor of the direction of price change.

3. When Implied Volatility increases (everything else stays the same), the option premium will:
    a. Increase
    b. Decrease
    c. Stay the same

4. Mean reversion is:
    a. A term that suggests historical returns will deviate and never return to its long-term mean
    b. A guarantee there will be a return to a normal pattern
    c. A theory that an asset will return to its average
    d. A reversion to a mean that never changes

5. What tool can you use to evaluate volatility (hv vs. iv)?

Project work: pull up the identified volatility chart and take a look at the ebb and flow of the volatilities of your choosing. Is there a pattern? Now compare some noticeable volatility changes to a price chart. What did you notice?

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will be furnished upon request.

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