Week 2: CBOE Volatility Index (VIX) Homework

1. Which is true about the VIX index:
    a. Represents the market estimate for 90 day volatility of the S&P 500 index
    b. Index is tradeable
    c. VIX is a barometer of investor sentiment and market volatility; “fear index” moniker
    d. Derived by using CBOE-listed options on the .RUT

2. True/False: The original VIX methodology used options on the S&P 100 (.OEX) which is still quoted (.VXO).

3. Which S&P options price is used for calculating the spot value?
    a. Bid
    b. Ask
    c. Midpoint

4. What does the VIX measure?
    a. VIX index gives you a forecast for expected S&P 500 index options (SPX) volatility over the next 30 days
    b. VIX represents the S&P 500 index percentage move only to the downside that is not annualized
    c. VIX index is a backward looking measure, in contrast to realized volatility (historical volatility)
    d. VIX index provides the annualized three standard deviation move up or down

5. What relationship does the VIX have with .SPX?
    a. Direct correlation to .SPX fluctuations
    b. VIX will move down as .SPX falls
    c. VIX tends to spike up as .SPX falls sharply
    d. VIX has no correlation to .SPX

Project work: Pull up a chart on .SPX and add .VIX using the compare menu and typing in .VIX (select dual axis comparison). Now choose “max” timeframe near the bottom left section of the chart. Observe the fluctuations of the .SPX and the reaction of the .VIX.

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