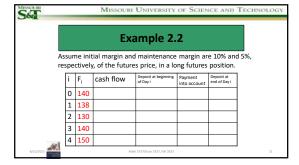


Definition 2.1 (continued)

Each investor entering a futures contract has to pay a deposit, the initial margin. In a long futures position, F,-F₁₋₁ is added to the deposit at time i. Any excess above the initial margin may be withdrawn by the investor. However, if deposit drops below the maintenance margin, the clearing house will issue a margin call, requesting the investor to restore the deposit to the level of the initial margin. If the investor fails to respond to a margin call, the clearing house will close the futures position. It costs nothing to enter, close, or alter a futures contract.

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MISSOURI UNIVERSITY OF SCIENCE AND TECHNOLOGY SET Remark 2.3 Comparison of forward and futures contracts **Forwards** Over-the-counter market Exchange-traded market Not standardized Standardized contract Settled at end of contract Settled daily Contract is usually closed out Delivery takes always place prior to maturity Some credit risk Virtually no credit risk

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