

Wall Street Playbook.

FREE FIELDNOTES / SALES & TRADING

Sales & trading: execution and hedge worksheet

This two-part case tests different desk skills: explaining an equity order's execution and sizing a simple rates hedge. The markets, quotes and positions are fictional. They are simplified exercises, not live trading instructions.

THE TASK

Explain execution costs and hedge direction without losing track of units.

Markets interview practice | Suggested session: 30 minutes

Updated 2 October 2026. Original exercises with stated assumptions and source notes.

How to use this resource

Work through the prompts before checking the answers. Keep a record of the assumption or step that caused difficulty, then repeat that part without notes. The suggested timing is a study aid, not an employer assessment standard.

Part A / An order with a price limit

A client wants to buy 2,000 shares. The displayed offer book is below; the best bid is \$99.90. First assume an immediately executable market order, no fees, no hidden liquidity, no price movement and that all displayed offers remain available. Then compare a buy limit of \$100.10.

Offer price	Available shares
\$100.00	500
\$100.10	800
\$100.25	1,200

- Calculate the market order's total cost and volume-weighted average price (VWAP).
- Calculate dollar and basis-point slippage relative to the arrival mid-price.
- For the \$100.10 limit order, calculate immediate shares filled, average fill price and unfilled quantity.
- Explain the trade-off to the client without guaranteeing the remaining fill.

Fill by price level / total cost / VWAP

Arrival mid / dollar slippage / basis points

Limit-order filled / unfilled / average fill price

Part A / Worked execution

The mid-price is a stated benchmark for this exercise, not proof of an executable price. Real costs can include fees, spread, impact, latency and opportunity cost from unfilled orders.

Example client explanation

Under the displayed-book assumptions, completing all 2,000 shares immediately costs about \$100.1275 per share. A \$100.10 limit fills 1,300 now and leaves 700 unfilled. The choice depends on whether completing the order or controlling the maximum price matters more. Actual available liquidity and execution may change.

Part B / A first-order rates hedge

A long bond position loses approximately \$4,800 for a parallel 1 basis point rise in yield. A long futures contract loses approximately \$60 for the same rate move. Define those as positive DV01 magnitudes for long exposures. Ignore convexity, carry, basis changes and delivery effects for the initial calculation.

- How many futures contracts, and in which direction, offset the first-order exposure?
- Estimate bond, futures and net P&L for a parallel 10 basis point rise.
- If the bond DV01 increases to \$5,100 while the 80-contract hedge stays unchanged, what first-order exposure remains?

Hedge size and direction

P&L for +10 bps / residual after DV01 changes

WORKED ANSWER

Part B / Worked hedge

Short 80 futures: $\$4,800 / \$60 = 80$. A 10 bp rise produces approximately -\$48,000 on the long bond position and +\$48,000 on the short futures, for zero first-order net P&L under the stipulated mapping.

With bond DV01 at \$5,100, the unchanged short futures offset \$4,800, leaving \$300 per bp long exposure. A 10 bp rise then implies approximately -\$3,000 residual P&L. Under the same assumptions, five additional short contracts would offset that change.

A single DV01 hedge does not eliminate curve-shape, credit-spread, basis, convexity, liquidity or operational risk. The two instruments may not respond to the same underlying rate in practice.

Explain the limitation before the number becomes a promise

To practice the interview discussion, explain Part A to a client in plain language and Part B to a desk risk manager. They need different details even though both answers require careful assumptions.

- State whether a rate is in percent, decimal or basis points; 10 bps is 0.10 percentage points.
- Name the execution benchmark and distinguish an observed quote from an available fill.
- Keep hedge direction explicit: a short exposure gains when the corresponding long exposure loses, under the assumed sensitivity.
- Recalculate sensitivities when prices, time or the portfolio changes.
- For a real futures hedge, check the contract specification, conversion factors, deliverable basket and the relationship to the cash instrument.

Source notes and next steps

Investor.gov: types of orders

Background on market and limit orders. The order book and first-order sensitivity inputs are original fictional examples; the hedge is defined mathematically by the supplied sensitivities.

<https://www.investor.gov/introduction-investing/investing-basics/how-stock-markets-work/types-orders>

Continue when you have identified a gap

The full guide develops execution, client, hedging and inventory cases with editable exercises.

[Preview the sales & trading playbook](#)

[Read this resource online and find the current edition](#)