# To put it into practice I

- Fill in the cross rates in the table below:

| Num \ Den | A | B | C | D | E |
|---|---|---|---|---|---|
| **A** | --- | 4.5 | | | |
| **B** | | --- | | 2 | |
| **C** | 3.05 | | --- | | |
| **D** | | | | --- | 5 |
| **E** | | | | | --- |

# To put it into practice II

Given the following bid-ask quote:

| | BID | ASK |
|---|---|---|
| A/B | 220 | 240 |

At what exchange rate will:

(a) Mr. Smith purchase A?

(b) Mr. Brown sell A?

(c) Mrs. Green purchase B?

(d) Mrs. Jones sell B?

# To put it into practice III

- On 15th June 201X, you bought 5 futures contracts for 50,000 EUR each @ USD/EUR 1.29. Assume that the daily settlement prices are shown in the table below:

| DAY | 16 | 17 | 18 | 19 | 22 | 23 | 24 | 25 |
|---|---|---|---|---|---|---|---|---|
| **Price** | 1.28 | 1.30 | 1.29 | 1.31 | 1.26 | 1.25 | 1.26 | 1.27 |

a) What are the daily cash flows from marking to market?

b) If you deposit USD 60,000 into your margin account, and your broker requires USD 40,000 as maintenance margin, when will you receive a margin call and how much will you have to deposit?

# To put it into practice IV

Consider the following:

S: $Currency_1$ 1.25/$Currency_2$

$r_{1y\_Currency1} = 3\%$

$r_{1y\_Currency2} = 4\%$

1. Calculate the theoretical price of a one year forward contract.
2. What would you do if the forward price was quoted at $Currency_1$ 1.26/$Currency_2$ in the market place? Where would you borrow? Lend? Calculate the gain on a $Currency_1$ 100 million arbitrage transaction.
3. What would you do if the future price was quoted at $Currency_1$ 1.20/$Currency_2$ in the market place? Where would you borrow? Lend? Calculate the gain on a $Currency_2$100 million arbitrage transaction.