To put it into practice I

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 II

Fill in the cross rates in the table below:

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

To put it into practice III

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.

To put it into practice IV

The following exchange rates and one-year interest rates exist.

	BID	ASK
$S_{A/B}$	1.12	1.13
$F_{1A/B}$	1.12	1.13

	Deposit Rate	Loan Rate
r_A	6.00%	9.00%
r_B	6.50%	9.5%

You have 100,000 A to invest for one year. Would you benefit from engaging in covered interest arbitrage?