To put it into practice I

Mr. Brown sold a put option on Canadian dollars for $.03, with strike price equal to $.75. At the same time, he sold short 50,000 CAD @ $.75 (option notional amount = 50,000 CAD).

- If the spot rate at the time the option was exercised were $.72, what would be Mr. Brown's net profit/loss?

- What is the strategy maximum gain?

- What is the strategy maximum loss?

To put it into practice II

The following information is currently available for Canadian dollar (C$) options

- Put option strike price $.75.
- Put option premium $.014.
- Call option strike price $.76.
- Call option premium $.01.
- One option contract represents C$50,000.

a. What is the maximum possible gain the writer of a strangle can achieve using these options?

b. What is the maximum possible loss the writer of a strangle can incur?

c. Locate the break-even point(s) of the strangle.

To put it into practice III

True or false? **Please, explain.**

- An analyst has stated that the British pound is likely to decrease in value over the 2 weeks following announcements by the Bank of England that it will cut interest rates. This claim would support the view that the market is semi-strongly efficient.
- If foreign exchange markets are found to be weak-form efficient, significant trading profits are very likely to be achieved through technical analysis.
- Efficiency is always incompatible with the existence of predictable price patterns.