ECON 463 Spring 2009
Quiz 1

On a clean sheet of paper, write your name and your group number, and then answer the following questions.

a) This morning, the bid/offer spread on the spot market was 1.16491 / 1.16527 Swiss Francs per Dollar. What is the spread on this spot price, as a percentage of the midpoint?

b) Using the midpoint, what is the direct spot price for the Swiss Franc?

c) This morning, the direct midpoint spot price for the Euro was $1.277. What was the spot price of Euros in Swiss Francs?

d) As of Friday, a one-year U.S. T-Bill with a $10,000 face value was selling for $9,940. What is the annual yield for this T-Bill? Report the yield in hundredths of a percent (which we call basis points).

e) In Germany, a one-year government bond currently has a yield of 1.01%. Assuming the risk premium on German bonds is equal to that on U.S. bonds, what is the one-year direct forward rate (at midpoint) for Euros?

f) Suppose that you just signed a contract to import goods from Germany, with payment due in a year. If you decided to wait a year to buy Euros, are you speculating or hedging? What can go right, and what can go wrong?

g) Suppose you decide to buy Euros now, are you speculating or hedging?

h) Suppose you decide to buy Euros with a one-year forward contract, are you speculating or hedging?

i) Suppose you choose to wait to buy Euros, as in (f), but you decide to buy an option contract to hedge your risk. Would you buy a put for Euros, or a call? Would you be the writer, or the holder? Which would cost you more, a strike price of $1.25, or a strike price of $1.30? Which would cost you more, a European option or an American option? If in a year, the spot price was $1.40, would you strike? Would you have made or lost money? Explain.

j) Suppose you did not have the import contract, but decided to buy Euros forward on the hope that the Euro would appreciate more than the market expects. Are you speculating or hedging? What can go right, and what can go wrong?