Econ 463 Quiz 1 Key

a) On a midpoint \( E \) of 1.16509, the spread is 0.03\%, or \( +/- 0.015\% \).

b) The direct \( E = 0.858303 \)

c) \( \text{CHF/€} = \frac{\$}{\text{€}}/\frac{\$}{\text{CHF}} = \frac{1.277}{0.858303} = 1.48782 \)

d) The yield is \( 10,000/9940 - 1 = 0.006036 = 0.60\% \) (this is 60 basis points)

e) Approximately: \( \left( \frac{\Delta E}{E} \right)^f = 0.60\% - 1.01\% = -0.41\% \)

Precisely: \( \left( \frac{\Delta E}{E} \right)^f = \left( \frac{1 + i}{1 + c^f} \right)^f - 1 = -0.40\% \)

The Euro forward discount is 0.4\%. It is expected to depreciate to 1.271862.

f) Waiting would be speculating. If the Euro depreciates more than 0.4\%, you win. If less, you lose.

g) Hedging

h) Hedging

i) A call option - you are the holder.
A strike price of $1.25 costs more. An American option costs more. If \( E \) rises to $1.40, you will strike. Depending on the strike price, you would have been better off with (g) or (h), but the option is much better than (f). You avoided losing money.

j) Speculating. If the Euro appreciates more than -0.4\%, you win. If not, you lose.