

Financial Economics  
 Financial Markets Analysis Part 2  
 Homework 2

I. Use a newspaper or the internet to find the data to fill in the following table. The cells should contain the number of units of the column currency per unit of the row currency.

Exchange Rates

	UK pound	euro	US dollar	Swiss franc
UK pound	1.0000			
euro		1.0000		
US dollar			1.0000	
Swiss franc				1.0000

II. You are given the following data

	closing mid-point exchange rate	bid - ask spread
Zambian kwacha	824.00	300 - 500
UK pound	1.6670	370 - 970
Paraguayan guarani	6140.0	200 - 600
Kuwaiti dinar	0.2884	784 - 984

These exchange rates are units of foreign currency per dollar except the pound, which is dollars per pound

Fill in the following table.

Dollar Exchange Rates (units of currency per dollar)

	Bid rate	Offer rate
Zambian kwacha		
UK pound*		
Paraguayan guarani		
Kuwaiti dinar		

\*Express as dollars/pound

III. Fill in the following cross rates (both the smaller and the larger) using the table from the last question. The cells should contain the number of units of the column currency per unit of the row currency.

### Spot Cross Rates

Zambian kwacha	UK pound	Paraguayan guarani	Kuwaiti dinar
UK pound	-----		
Paraguayan guarani		-----	
Kuwaiti dinar			-----

IV.

A. Suppose that the Ukrainian hryvna is trading in the spot market for 5.3363 hryvnas/\$. Suppose that the one-year dollar interest rate is 4 percent and the one-year hryvna interest rate is 15 percent. Find the one-year hryvna/dollar forward rate.

B. Suppose that the UK pound is trading at 1.6000£/\$ in the spot market. Suppose that the one-year pound interest rate is 4 percent and the one-year dollar interest rate is 3 percent. Find the one-year \$/£ forward rate.

C. Suppose that the Ruritanian krone is trading at 4.5679 Swiss francs/krone in the spot market and the Pongoland pongo is trading at 7.8695 pongos/Swiss franc in the spot market. The one-year krone interest rate is 10 percent and the one-month pongo interest rate is 7 percent. What is the one-year krone/pongo forward rate?