FOREX CLASS 6

HOME WORK SUPPORT

COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
7	3	CW Q BOOK	7	3	CW ANS BOOK	00:00:31 – 00:02:12
16	6	CW Q BOOK	16	8	CW ANS BOOK	00:02:13 – 00:09:30
Ex. 1	-	-	-	-	-	00:09:31 – 00:33:34
Ex. 2	-	-	-	-	-	00:33:35 – 00:38:47

Topic 3 CROSS RATE

Question 7: CW Q BOOK PAGE 3

Given:

US$ 1 = ¥ 107.31

£ 1 = US$ 1.26

A$ 1 = US$ 0.70

i. Calculate the cross rate for Pound in Yen terms

ii. Calculate the cross rate for Australian Dollar in Yen terms

iii. Calculate the cross rate for Pounds in Australian Dollar terms

(Source: ICAI)

Answer: CW ANS BOOK PAGE 3

i. Calculate the cross rate for Pounds in Yen terms

1£ = ? ¥

US$1 = ¥ 107.31

£ 1 = US$ 1.26

$$\frac{¥}{\$} \times \frac{\$}{£} = \frac{¥}{£}$$

$$\frac{¥}{£} = 107.31 \times 1.26$$

£1 = ¥ 135.21

ii. Calculate the cross rate for Australian Dollar in Yen terms

A$1 = ¥ ?

US$1 = ¥ 107.31

A$ 1 = US$ 0.70

$$\frac{¥}{\$} \times \frac{\$}{A\$} = \frac{¥}{A\$}$$

$$\frac{¥}{A\$} = 107.31 \times 0.70$$

A$ 1 = ¥ 75.12

iii. Calculate the cross rate for Pounds in Australian Dollar terms

£ 1 = A$?

A$1 = US$ 0.70

US $ 1 = A$ 1.4286

£1 = US$1.26

$$\frac{A\$}{\$} \times \frac{\$}{£} = \frac{A\$}{£}$$

$$\frac{A\$}{£} = 1.4286 \times 1.26$$

$$= 1.80$$

£ 1 = A$ 1.80

Question 16: CW Q BOOK PAGE 6

USD 10,000 is lying idle in your Bank Account. You are able to get the following quotes from the dealers:

Dealer	Quote	
A	EUR/USD	1.1539
B	EUR/GBP	0.9094
C	GBP/USD	1.2752

Is there an opportunity of gain from these quotes?

(Source: ICAI)

Answer: CW ANS BOOK PAGE 8

The arbitrageur can proceed as stated below to realize arbitrage gains.

i.	Buy € from US$ 10,000 from Dealer A (10,000/ 1.1539)	€ 8,666.26
ii.	Convert these € to £ by selling to Dealer B (€ 8,666.26 × 0.9094)	£ 7,881.09
iii.	Convert £ to US$ by selling to Dealer C (£ 7,881.09 × 1.2752)	US$ 10,049.97

There is net gain of US$ 10,049.97 less US$ 10,000 i.e. US$ 49.97 or US$ 50.00.

Example 1:

Bank A	₹/$	81.20/82.70
Bank B	$/£	1.3650/1.3710
Bank C	₹/£	126.40/128.10

Show the process of arbitrage using $ 5,00,000

Answer:

Humne pehle calci pe check kiya Bank A se start krke….. Bank A ko $ bechna but loss aya……so correct way Bank B se start kro $ bechna

Step 1: Sell $ 500000 to Bank B-

500000/1.3710= £ 364697.3
($ becha means £ kharidna…… 1.3710 rate)

Step 2: Sell £ to Bank C getting

364697.3 × 126.40 = ₹46097739

Step 3: Sell ₹ to Bank A getting

46097739/82.70 = $557409 (approx)
(sell ₹ means buy $ @ 82.70)
Arbitrage Profit = 557409-500000 = 57409

Example 2:

9m F ($ / €) = 1.0560
Annualised forward premium on $ = 15%
Calculate spot rate ($ / €)

Answer:

$$\frac{S\text{-}F}{F}\times 100\times\frac{12}{9}=15$$

$$\frac{5-1.0560}{1.0560}\times\frac{100\times 12}{9}=15$$

$S - 1.0560 = 0.1188$

$\therefore S = 1.1748$