**FIN333 Global Finance**

Homework Assignment 3

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1. (30 points) Assume today’s settlement price on a CME EUR futures contract is $1.30/€. The contract is written on €125,000 and you have a **short** position in one contract. The initial performance bond is $6,500, and the maintenance performance bond is $4,000.
2. On day 1, the settlement price became $1.29/€, what is your performance bond account balance at end of day 1?

6,500 +(1.30-1.29)\*125,000=6500+1250=**$7,750**

1. On day 3, the settlement price became $1.32/€, you decide to close your position. What is your **total** gain or loss?

(1.30-1.32)\*125,000=**-$2,500**

1. (70 points) From the perspective of the **writer** of a put option written on €62,500. If the exercise price is $1.55/€, and the option premium is $0.03.
2. At what exchange rate do you start to lose money (i.e. break-even exchange rate)?

1.55-0.03=**1.52**

1. What is your maximum profit?

**0.03\*62,500=1875**

1. What is your maximum loss?

(1.55-0.03)\*62,500=**95,000**

1. If the spot exchange rate is $1.54/€ calculate the intrinsic value and the time value of the put option.

Intrinsic value is 1.55-1.54=0.01.

Time value=premium-intrinsic value=0.03-0.01=0.02

1. Draw your profit graph for this put optionDiagram

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