Problem 3

Problem 3

Bid Price	$	100.00	Forward Price	$ 97.47
Ask Price	$	102.00		
Risk Free interest Rate		4.50%	Adjusted Spot Price	$ 95.18
Dividend Payment	$	6.00		
Time to Maturity (years)		3.00		

Payment Schedule Div

Time (Years)	PV	
0.5	$	5.87
1.5	$	5.61
2.5	$	5.36
Total	$	16.84

Problem 3

Bid Price	100	Forward Price	=(D29-D40)*EXP(D30*D32)
Ask Price	102		
Risk Free interest Rate	0.045	Adjusted Spot Price	= (D28-D40)*EXP(D32*D30)
Dividend Payment	6		
Time to Maturity (years)	3		

Payment Schedule Div

Time (Years)	PV
0.5	= D31*EXP(-D30*C36)
1.5	= D31*EXP(-D30*C37)
2.5	= D31*EXP(-D30*C38)
Total	=SUM(D36:D38)

a) If the client wants a long position in the forward the financial institution should quote a forward price $97.50

b) If the client wants a short position in the forward the finacial institution should quote a forward price $95.18