

UNIVERSITY OF TEXAS AT AUSTIN

Quiz 5

Forward contracts.

Problem 5.1. (2 points) The profit diagram and the payoff diagram for long positions in a forward contract are identical. *True or false?*

Problem 5.2. (5 points) Maryam bakes batches of cupcakes for a cupcake convention. She buys forward 21 pounds of raspberries from a local farmer at the forward price of \$5.60 per pound.

She projects to bake 336 cupcakes and sell each for \$3. The total and aggregate non-raspberry costs of baking the cupcakes are \$200.

If the market price of raspberries on the day of the cupcake convention is \$5.40, what is Maryam's profit?

- (a) \$690.40
- (b) \$694.60
- (c) \$890.40
- (d) \$894.60
- (e) None of the above.

Problem 5.3. (8 points) Believe it or not, we all enter forward-like contracts on a daily basis. Explain, in eight lines or fewer, how ordering a pizza is like a forward contract. Ignore time-limits on when the pizza should be delivered. Imagine that the pizza is to be delivered in 30 minutes **exactly**.