1. Mississippi Mud Pies, Inc., needs to buy 1,000,000 Swiss francs (CHF) to pay its Swiss chocolate supplier. Its banker quotes bid–ask rates of CHF1.3990–1.4000 per USD. What will be the dollar cost of the CHF1,000,000?
   1. Estoy utilizando el franco suizo para darle el precio al dólar. CHF/USD. Estoy pagando 1.3990 Francos por cada Dólar. Tengo que comprar 1 millon de francos y necesito vender mis dólares y por mis dólares el mercado me los compra al bid. O sea, 1.3990:
2. If the Japanese yen–U.S. dollar exchange rate is ¥104.30 per $, and it takes 25.15 Thai bahts to purchase 1 dollar, what is the yen price of the baht?
3. If the spot exchange rate of the yen relative to the dollar is ¥105.75 per $, and the 90-day forward rate is ¥103.25 per $, is the dollar at a forward premium or discount? Express the premium or discount as a percentage per annum for a 360-day year.
4. Suppose today is Tuesday, January 18, 2011. If you enter a 30-day forward contract to purchase euros, when will you pay your dollars and receive your euros? (Hints: February 18, 2011, is a Friday, and the following Monday is a holiday.)
5. Suppose the 5-year interest rate on a dollar-denominated pure discount bond is 4.5% p.a. and the interest rate on a similar pure discount euro denominated bond is 7.5% p.a. If the current spot rate is $1.08 per EUR, what forward exchange rate prevents covered interest arbitrage?

1. If the 30-day yen interest rate is 3%EA., and the 30-day euro interest rate is 5%EA What is the magnitude of the forward premium or discount on the yen?
2. Suppose the spot rate is CHF1.4706 per $, and the 180-day forward rate is CHF1.4295 per $. If the 180- day dollar interest rate is 7% p.a., what is the annualized 180-day interest rate on Swiss francs that would prevent arbitrage?
3. You are a sales manager for Apple and export cellular phones from the United States to other countries. You have just signed a deal to ship phones to a British distributor, and you will receive £700,000 when the phones arrive in London in 180 days. Assume that you can borrow and lend at 7% p.a. in U.S. dollars and at 10% p.a. in British pounds. Both interest rate quotes are for a 360-day year. The spot rate is $1.4945 per £, and the 180-day forward rate is $1.4802 per £.

Si yo soy exportador y estoy esperando el flujo de mi moneda extranjera el riesgo es que la moneda extranjera se deprecie. Para cubrirme de esto me puedo ir corto pidiendo un crédito como propone el ejemplo.

* 1. Describe the nature and extent of your transaction foreign exchange risk.

Cerrar un Forward a la tasa Forward en corto a 1.4802.

También puedo hacer un Forward Sintético pidiendo prestado en libras pagando 4.88% de interés, o sea 734166. Luego, cojo los 700000 que me prestaron, los paso a dólares con la spot, o sea, 1046150 dólares y la invierto al 3.44% que me va a dar 1082146. Cuando paso ese dinero a la tasa Forward obtengo 731080 y no se cumple la paridad. La tasa Forward está mal puesta y debería cerrarlo.

* 1. Describe two ways of eliminating the transaction foreign exchange risk.
  2. Which of the alternatives in part b is superior?
  3. Determine what sterling interest rate would make your firm indifferent between the two alternatives.

1. Suppose that the price level in Canada is CAD16,600, the price level in France is EUR11,750, and the spot exchange rate is CAD1.35 per EUR.
   1. What is the internal purchasing power of the Canadian dollar?
   2. What is the internal purchasing power of the euro in France?

* 1. What is the implied exchange rate of CAD per EUR that satisfies absolute PPP?
  2. Is the euro overvalued or undervalued relative to the Canadian dollar?

La tasa de paridad es 1.41. La Spot está en 1.35 como S<Sppp entonces el euro está subvalorado y el dólar canadiense sobrevalorado.

* 1. What level of appreciation or depreciation of the euro would be required to return the actual exchange rate to its PPP value?

El euro se tiene que apreciar 4.46% para llegar a la tasa de paridad absoluta.

1. Suppose that you are trying to decide between two job offers. One consulting firm offers you $150,000 per year to work out of its New York office. A second consulting firm wants you to work out of its London office and offers you £100,000 per year. The current exchange rate is $1.65 per £. Which offer should you take, and why? Assume that the PPP exchange rate is $1.40 per £ and that you are indifferent between working in the two cities if the purchasing power of your salary is the same.

Debería pagar 1.4 dolares por cada libra, pero de acuerdo al modelo de paridad de poder adquisitivo absoluto la LIBRA está sobrevalorada porque debería pagar menos.

Como el ppp es 1.4 esa es la que me dice cual opción me da mejor nivel de vida. Es decir que si me llegaran a ofrecer 140000 dólares sería indiferente entre escoger NY o Londres. Pero como me ofrecen 150000 dólares es mejor ir a NY porque consigo mejor nivel de vida allá con 150000 dólares que en Londres con 100000 Libras.

1. If there is a 10% inflation in Brazil, 15% inflation in Argentina, and the Argentine peso weakens by 21% relative to the Brazilian real, by how much has the peso strengthened or weakened in real terms? What effect do you expect that this change in the real ex- change rate would have on trade between the two countries?

La devaluación real fue de

La devaluación de mi moneda es un incentivo para exportar.

1. Fleur de France has a project that will provide £20 million in revenue in 1 year. The project has a euro cost of € 30 million that will be paid in 1 year. The cost of the project is certain, but the future spot exchange rate is not. Assume that there are only two possible future spot exchange rates. Either the spot rate in 1 year will be € 1.54 per £ with 55% probability, or it will be € 1.48 per £ with 45% probability. Assume that the French tax rate on positive income is 45%, that a firm’s losses are immediately refunded at a rate of 35%, and that the forward rate of euros per pound equals the expected future spot rate.
   1. If Fleur de France chooses not to hedge its foreign exchange risk, what is the expected value of its after-tax income on the unhedged project?

Escenario 1 55%:

Income: Libra 20 Millones

Costo: Euro 30 Millones

Spot: 1.54 Euros/Libra

Tax: 45% sobre ganancias. -35% Sobre pérdidas.

Escenario 2 45%:

Income: Libra 20 Millones

Costo: Euro 30 Millones

Spot: 1.48 Euros/Libra

Tax: 45% sobre ganancias. -35% Sobre pérdidas.

* 1. If Fleur de France chooses to hedge its foreign exchange risk, what is the expected value of its after-tax income on the hedged project?
  2. How much does Fleur de France gain by hedging?