Group Assignment

Instructions

This is a group research project that must be completed and submitted as a group. Web-based checks on plagiarism will be conducted on each group project.

Mark Allocation:

This project will be marked out of 30 and constitutes 30% of your overall grade.

Length:

The length of the project must NOT EXCEED 12 typed pages with double spacing, 12 points Times New Roman, including executive summary and references but excluding appendix, if used. Appendices must not exceed 5 pages. There will be a **penalty of 1 mark per page** for not meeting this requirement.

What's included in the 12 page limit?
- Executive summary
- Assignment body
- Tables
- Figures
- Reference list

What's excluded from the 12 page limit?
- Title (Cover) page
- Table of contents
- Appendices

Due date:

The due date for the project is **5:00pm October 21st, 2022 (Sydney time)**.

Submission:
The only acceptable form of submission is electronic via the submission link in the unit's Canvas site. **Hardcopy and email submissions will NOT be accepted. Late submissions will be penalized.** See below for penalty details. **All submission will be checked through TURNITIN for similarity with external sources.**

The TURNITIN assignment submission box will close at 5:00pm on **November 4th, 2022** (Closing date).

Submission format:
Each group can only submit ONE project report. Only ONE submission for each group is permitted. It is imperative that your project report is submitted in ONE document. Only a PDF format document will be accepted and it is your responsibility to ensure all pages correctly display your original content. Missing or distorted figures and formulas will result in lower marks.

Cover page:
Ensure the Student Identification Number (SID) and the full name of EACH student are on the cover page of your assignment.

Document name:
Your project PDF file **must be named in the following format:**
FINC6013_**Groupnumber**_ 2022.PDF
Example:
FINC6013_Group14_2022.PDF

There will be a penalty of 1 mark for incorrectly named projects.

Referencing:
List of references used and in-text citations must follow the Harvard referencing style
http://libguides.library.usyd.edu.au/content.php?pid=160012&sid=1510179

Presentation:
Pay particular attention to presentation. A significant component of your mark will be based on presentation. Avoid overdoing formatting, and ensure that the assignment is very clear, logical, and professional. Pay attention to grammar. Clear and logical presentation is a major challenge. Preparing a concise report is another major challenge. Every part of the assignment should add to the end result otherwise it is superfluous and distracting.

PENALTIES:
Late penalty:
A late submission will attract a deduction of 5% of the maximum mark for each calendar day after the

due date. After ten calendar days late, a mark of zero will be awarded.

Incorrect format penalties:
1 mark per page for exceeding the page limit.
1 mark penalty for inappropriate referencing and formatting.
1 mark penalty for a failure to follow the naming convention of the project.

Plagiarism:
While discussion and collaboration are expected, plagiarism is a breach of the University of Sydney Code of Conduct and will be dealt with by the Faculty.

http://sydney.edu.au/student_affairs/plagiarism/index.shtml

Be sure to acknowledge all of your source materials and provide proper citations for any quotes. Checks for similar contents (web materials, other students' projects, etc.) and plagiarism will be conducted by TURNITIN and the projects with a similarity index significantly above an acceptable level will be reported to the faculty and this may result in a zero mark being awarded for the project.

Assignment Project Exam Help

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The uncovered interest parity and currency carry trades (30 Marks)

A currency carry trade involves investors looking to exploit interest rate differentials between two currencies and it is thought to be one of the factors that contribute to the empirical violations of the uncovered interest parity (UIP). Choose a pair of funding and investment currencies (you decide pairs of currency on your own) and their money market interest rates (e.g., monthly rates, i and i^*). Provide detailed responses for each of the parts below.

1.1 Trend analysis (6 marks)

Document the trends of the exchange rate and two interest rates over the past 10 year period (or more) using data at a monthly frequency. This should include a graphical analysis showing the movements of each of the three series. In addition, provide commentaries (descriptions) of the salient points of the trends, if any.

Ensure to use risk-free rates. A proxy for risk-free rate can be either short-term Treasury bill, or Interbank rate. Since the investment horizon is one-month, it's better to use short-term (1-month or 3-month) maturity bond rate than long-term maturity bond rate (5-year or 10-year). These risk-free rate proxies can be obtained from a central bank website of each country. The FRED® database of the Federal Reserve Bank of St. Louis (see its link below) provide these data for some countries.

1.2 Deviations from the uncovered interest parity (6 marks)

If the UIP condition holds, the exchange rate that was predicted from the interest rate differential 30 days prior to today would equal to the currently observed exchange rate. If the UIP condition does not hold, there would be deviations (i.e., differences) between the predicted exchange rate and actual realized exchange rate. Present (1) time-series of the predicted and actual realized exchange rates in one figure, and (2) time-series of the deviations between them in another figure. Identify the periods, if any, where the UIP appears to have been *significantly* violated.

Since the UIP condition can be represented in different ways, deviations from the uncovered interest rate parity can be represented in different ways as well. One form of deviation is a difference between the forecasted and actual exchange rate, as discussed above. Another form is a difference between percentage change in the exchange rate and interest rate differential. Present a scatter plot where the *y*-axis is an interest rate differential and the *x*-axis is percentage change in the exchange rate. Discuss whether your data points lie on the 45-degree line through the origin.

1.3 Empirical testing of the UIP (6 marks)

Empirically test the validity of the UIP for the two currencies you have chosen. A regression analysis is required and you can use Excel's data analysis add-in or any of the statistical packages you have access to. Be sure to (1) clearly identify the regression model, (2) the null hypothesis you are testing, and (3) provide appropriate discussions on the results of the regression analysis.

1.4 Profitabilities of carry trade strategy (6 marks)

Assume that you are a trader who adopts a certain carry trade strategy and invest a certain amount of money at the beginning of the sample period. Identify the periods of *significant* profitable carry trade opportunities that exist during your sample period. Calculate the carry trade profits that would have resulted over your sample period. Carry trade profits can be represented as a dollar (or other currency) term.

Document the market conditions during these profitable periods (e.g., measures of system stability – exchange rate volatility, stock market volatility, etc.). Check newspaper reports (using Factiva via library's web access) to see whether actual carry trades during the identified periods have been reported.

In addition, identify the periods when your carry trade strategy delivers *significant* negative returns. To what extent market conditions differ from the periods when your carry trade strategy delivers positive returns?

Finally, now assume that you adopt the same carry trade strategy as above and invest a certain amount of money only *at the beginning of 2020*, calculate the profit or loss of your carry trade strategy during the 2020-2021 global COVID-19 crisis (two-year period). Discuss why you make a profit or a loss with your carry trade strategy during the 2020-2021 global COVID-19 crisis period.

The remaining 6 marks are allocated for presentation of report.

- Ensure to use *academic* reference (not solely web sources) to support your discussions/arguments.
- Pay particular attention to presentation. Avoid overdoing formatting, and ensure that the assignment is very clear, logical, and professional.
- Clear and logical presentation is a major challenge in assignment preparation. Preparing a concise assignment is another major challenge.

Information sources:

- FRED® database of the Federal Reserve Bank of St. Louis:
  https://fred.stlouisfed.org/
- Central bank web sites of relevant currencies (most provide relevant data for sufficient periods)
- Web sites of international organizations – OECD, IMF, BIS, etc.
- International Financial Statistics (On-line database available from Fisher Library's web site)
- Newswire and financial newspaper reports (accessible via Factiva database from Fisher Library's web site)
- Other Web sources – market commentaries of FX and money market movements