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Questions about Russia, 1998

Note: Please read the case on arbitrage in Russia in 1998 that is posted on the course Compass site (`russia_case.pdf`). Please think about the questions posed below, and come to class prepared to discuss them.

If you would like to present this case, prepare a brief written report (and a set of slides) addressing each of the questions. You are welcome to refer to any other materials you may have come across that relate to this episode (cite all such materials appropriately).

- **Question 1.** What, if anything, could go wrong with the simplest trade of buying GKOs which mature on September 16th, and taking a short rouble position in NDFs that settle on the same day? Explain exactly how the cash-flows from such a transaction would work at each date.

- **Question 2.** If you were going to do the trade in Question 1, would you rather use the futures contracts listed on the CME instead of NDFs for the currency hedge? Why or why not?

- **Question 3.** Do you agree with the view expressed at the end of the case that the unusual forward and futures prices that were observed were just the result of ordinary market imperfections, and that the rewards available were just the expected returns that accrue to arbitrageurs who enforce no-arbitrage relationships?