Quiz 20 for Nov 7

Started: Nov 4 at 11:49pm

Quiz Instructions

Complete this quiz by 11:00 a.m. on Monday November 7.

Question 1

1 pts

The continuously-compounded one-year riskfree rate, *r*(0,1), equals 5.00% and a non-dividend paying asset has a current price per share of $100. If a one-year forward contract to purchase this asset has a forward price of $104, then there would be

- ○ an arbitrage opportunity involving a short forward contract position, purchasing the asset, and borrowing at the riskfree rate.
- ○ an arbitrage opportunity involving a long forward contract position, purchasing the asset, and borrowing at the riskfree rate.
- ○ an arbitrage opportunity involving a short forward contract position, short-selling the asset, and investing at the riskfree rate.
- ● an arbitrage opportunity involving a long forward contract position, short-selling the asset, and investing at the riskfree rate.

Question 2

1 pts

A forward contract is written on the market portfolio. A long position in this forward contract has

- ○

a risk-neutral expected profit less than zero.

- [x] an expected profit greater than zero.
- [ ] an expected profit less than zero.
- [ ] a risk-neutral expected profit greater than zero.

Question 3

1 pts

The current domestic currency per foreign currency (DC/FC) spot exchange rate is 1.50 and the continuously-compounded 1-year DC interest rate is 3.00% while the continuously-compounded 1-year FC interest rate is 8.00%. Based on covered interest parity, the one year forward exchange rate is

State your answer to 2 decimal places, e.g. 1.32 .

1.4268

Question 4

1 pts

The continuously-compounded yield on a 20-year nominal Treasury STRIP is 4.00% and the continuously-compounded real yield on a 20-year TIPS STRIP is 1.5%. What is the annually-compounded inflation swap rate, k_a, on a 20-year inflation swap contract?

State your answer as a percentage rate to 2 decimal places, e.g., 3.75 .

2.5316

Question 5

1 pts

Ask one or more questions or make one or more comments regarding the material covered in this class.

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12pt Paragraph B I U A T²

Can people arbitrage with forward exchange or inflation forward contract?

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Quiz saved at 2:26am

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