FM 5111
Hw2

Chapter 8:

Questions: $25, 26, 32, 38$.

Chapter 9:

Questions: $3, 4$.

In addition:

7) Suppose that 1 oz of gold can be bought and sold for \$1700 today and the $1-$year continuously compounded interest rate is 1%.

a) What should the forward price for 1 oz of gold deliverable in 1 year be?

b) If the market is trading it at \$1800 explain, clearly, how to structure an arbitrage that takes advantage of the mispricing (if there is a mispricing).

c) Repeat for the case in which the market is trading it at \$1600.