

Lecture 12: Foreign Exchange Quotations: Bid-Ask Spread

Short Questions:

1. The following exchange rates are available:
 - i) Bank A: JPY120/USD
 - ii) Bank B : CHF 1.6/USD
 - iii) Bank C: JPY of 80/CHF

Assume that a trader has CHF of 100mn. Can he do triangular arbitrage ? If so what would be the profit in CHF.

2. What forex dealers quote using bid-ask spread? Why Bid-Ask spread
3. Can there be huge difference between the bid-ask spread for a given bank over a considerable period of time?
4. What is Bid-Ask midpoint?
5. How forex dealers change the bid-ask spread to manage their currency inventory?