Lecture 16: Exchange Rate Arithmetic: Cross Rates & Triangular Arbitrage

Short Questions:

1. **A Canadian Exporter exporting goods to USA will receive USD100,000 after 3 months. A bank quotes 3-month USDCAD forward bid –ask rate as (1.2302 – 1.2315). How much the Canadian exporter will receive if he enters the forward contract?**

2. **Suppose spot USD/INR is 46.75 and 1 year US interest rate is 5% while it is 11% in India. A bank is quoting 1 year forward rate as 43.35. Does this give rise arbitrage opportunity? If so how a trader can benefit from this opportunity ?**

3. **A bank is quoting spot rate USD INR as 45.1560. Interest rate prevailing in USA is 3.5% and in India is 9%. Calculate what would be the 1 year USDINR forward swap points and what would be the 1 year USDINR outright forward quotations?**

4. **Bank A is quoting USDINR rate is 45.1725 and JPYUSD 0.0089. Bank B is quoting JPYINR rate of 0.4050. Find out the cross rate from Bank A's point of view and check whether any arbitrage opportunity exist or not? If exists, show how the arbitrage profit can be made.**