

Finance 40500
Group Exercise #1

- 1) Suppose that both the US and Europe are following a gold standard. The price of gold in the US is pegged at \$650/oz while the price of gold in Europe is pegged at E 500.
 - a) Calculate the implied EUR/USD exchange rate.
 - b) Suppose that large US trade deficits cause the Euro to appreciate to a price of \$1.35 per Euro. In which direction will gold flow and what will gold trader's profits be?

- 2) Suppose that you take out a long position in dollars at a USD/CHF exchange rate of 1.2258 and later reversed the position at 1.2345. Calculate your trading profit in dollars.

- 3) Suppose that you have the following exchange rates:

USD/CAD: 1.1208 – 1.1215

USD/GBP: .5289 - .5293

Calculate the Bid/Offer rates for the CAD/GBP exchange rate.