Finance 40500
Group Assignment #6

1) Assume that today's settlement price on a EUR futures contract is \$1.3140/EUR. You have a short position in one contract. Your performance bond account currently has a balance of \$1,700. The next three days settlement prices are as follows: \$1.3126, \$1.3133, and \$1.3049. Calculate the changes in the performance account from daily marking to market.

2) Suppose that June 2005 Mexican Peso futures contracts have a current price of \$.08845/MXP. You believe that the spot price in June will be \$.09500. What speculative position would you take to profit from your beliefs? Calculate your anticipated profits

3) You are considering a possible 6 month, \$100M LIBOR based, floating interest rate loan to fund an investment project. Below are the terms of the loan.

   September 20: Borrow \$100M at LIBOR +200bps

   December 20: Pay first three months interest and roll over the loan at LIBOR + 200bps

   March: Pay back principal plus interest.

   The current LIBOR rate is 7%, but is anticipated to increase. Show that a Eurodollar hedging strategy would result in a fixed rate loan. Assume that the LIBOR rate increased to 7.8% by December and remained at 7.8% through March.

4) You are considering the purchase of a 3 month Japanese Yen call option with a strike price of 96 cents per 100 Yen. The premium is currently 1.35 cents per 100 Yen.
   a) Graph the value of the option at expiration.
   b) Determine the profit from the option if the Yen appreciates to \$1.00 per 100 Yen.
   c) Suppose that 3 month Yen futures are currently trading at 97 cents per 100 Yen. Are you likely to make a profit from this call option? Explain.

5) Suppose that the 3 month dollar LIBOR is 4.5% annualized while the Euro LIBOR rate is 3.75% annualized. If the current spot price of Euro is \$1.25, calculate the price of a 3 month Euro forward contract.