

IDFM - Assignment 7.

- Parak Nagder (Roll no. 22)

1. C

2. C

3. D

4. C

5. C

6. A

7. B

8. B

9. A

10. D

11. A

12. D

13. A

14. D

15.

a) $H = \rho_{AF} \frac{\sigma_A}{\sigma_F}$

$= 1.02125$

b) hedger should take a short position.

c) $N^* = h^* \cdot \frac{(Q_A)}{(Q_F)} = 1.02125 \frac{(55,000)}{5000}$
 $\approx 11 \text{ contracts}$

d) we can tail the hedge:

$N^* = h^* \left(\frac{V_A}{V_F} \right) = 11.6498 \approx 12 \text{ contracts}$