

IDFM ASSIGNMENT - 1

- 1) c
- 2) c
- 3) d
- 4) c
- 5) c
- 6) a
- 7) b
- 8) b
- 9) b
- 10) c
- 11) b
- 12) d
- 13) a
- 14) d

15) $Q_A = 55,000$ $S = \$28$
 $Q_F = 5,000$ $\sigma_S = 0.43, \sigma_F = 0.4$
 $F = \$27$, $P = 0.95$

$$h^* = P \frac{\sigma_S}{\sigma_F}$$
$$= 0.95 \times \frac{0.43}{0.4}$$

a) $h^* = 1.02125$

b) Short

$$\begin{aligned}
 c) \quad V &= h \frac{Q_A}{Q_F} = 1.02125 \times \frac{55000}{5000} \\
 &= 11.233 \\
 &= 11
 \end{aligned}$$

d) By tailing hedge,

$$\begin{aligned}
 N &= h \frac{V_A}{V_F} \\
 &= 1.02125 \times \frac{55000 \times 28}{5000 \times 27} \\
 &= 11.6498 \\
 &= 12
 \end{aligned}$$