1. On April 30, 1973, the buying rate for deutsche mark spot in New York was $0.352350.
   a. What would you expect the price of the U.S. dollar to be in Germany?
   b. If the dollar were quoted in German at DM 2.8400, how is the market supposed to react?

2. On the same date that the DM spot was quoted $0.352350 in New York, the price of the pound sterling was quoted $2.4890.
   a. What would you expect the price of the pound to be in Germany?
   b. If the pound were quoted in Frankfurt at DM 7.00/£, what would you do to profit from the situation?

3. The spot Danish krone is selling for $0.15985, and the three-month forward is selling for $0.15900. The three-month treasury bill rate in the United States is 6.25% and in Denmark 7.50%.
   a. Are the forward rates and interest rates in equilibrium? Why?
   b. If not, what would you do to take advantage of the situation?
   c. If a large number of individuals take similar action, what will be the impact in the market? (Assume interest rates remain constant.)
4. Consider the following information:

- Spot exchange rate: $0.50/SFr
- 30-day forward exchange rate: $.505/SFr
- Annualized interest rate on 30-day US$-denominated government bonds: 18%
- Annualized interest rate on 30-day SFr-denominated government bonds: 6%

(In your answers, include the set-up for the calculations used to reach your answers.)

A. Ms. A is a Swiss consultant who calculates her income and wealth in SFr. She is due to receive a large payment in dollars in 30 days. She expects the spot rate in 30 days to be the same as the current spot rate. Should she cover her dollar receivable in the forward exchange market? Why?

B. Ms. B is a U.S. investor who calculates her income and wealth in dollars. Should she undertake a covered investment in 30-day SFr-denominated bonds (rather than investing in 30-day dollar-denominated bonds)? Why?

C. Mr. C is a Swiss investor who calculates his income and wealth in SFr. He expects the spot exchange rate to be $.495/SFr in 30 days. Should he undertake an uncovered investment in the 30-day U.S. dollar-denominated bond rather than invest in a 30-day SFr-denominated bond? Why?
5. Consider the following information:

Spot exchange rates: $2.40/£  190 ¥/$
Forward exchange rates (180 days): $2.39/£  180 ¥/$

Annual yield on government bonds maturing in 180 days:
20% in Britain (bonds denominated in £)
10% in Japan (bonds denominated in ¥)
18% in the United States (bonds denominated in US$)

A. You are an American investor who calculates your wealth and income in dollars. Should you make a covered investment in 180-day British government bonds rather than investing in 180-day U.S. government bonds? Why?

B. You are a British investor who calculates your wealth and income in pounds. Should you make a covered investment in 180-day Japanese government bonds rather than investing in 180-day British government bonds? Why?

C. You are a Japanese investor who calculates your wealth and income in yen. What expected spot rate for the yen-dollar exchange rate in 180 days results in an expected overall rate of return on an uncovered investment in 180-day U.S. government bonds that is equal to the yield available on 180-day Japanese government bonds?

D. You expect the spot rate to be 170 ¥/$ in 180 days. How would you speculate on your guess, using the forward exchange market? Explain the nature of the risk involved.