



# International Finance

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# Purchasing power parity (PPP)

## Quotation of the forward rate

## Exercise A:

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1. The N-day  is the rate which appears in a contract to exchange a currency for another N days in the future.
2.  is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries.
3.  is the rate used in agreements to exchange one currency for another immediately.

## Exercise A:

2/2

4. Insurance against exchange rate risk can be obtained through contracts in the forward market. Such activity is called
5.  is an artificial "basket" currency used by the IMF (International Monetary Fund) for internal accounting purposes. It is also used by some countries as a peg for their own currency, and is used as an international reserve asset.
6.  is the proportion by which a country's forward exchange rate exceeds (falls below) its spot rate.

## Exercise B:

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Calculate the forward premium/discount of the 6 month-long FR of the EX rates: SKK/EUR; SKK/USD; SKK/GBP for

a) period of 6 months

b) on the annual base

There are SR and FR quotations on the market:

	SR	1 m. FR	3 m. FR	6 m. FR
<b>SKK/EUR</b>	41.9634	41.9678	41.9718	42.1879
<b>SKK/USD</b>	42.5267	42.5266	42.5201	42.5158
<b>SKK/GBP</b>	66.7190	66.7299	66.7002	65.7044

## Exercise C:

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**There are EX rate quotations in the news paper:**

1 AUD = 23.251 SKK

1 USD = 42.526 SKK

1 GBP = 66,719 SKK

1 EUR = 41,963 SKK

**Calculate the cross rates: USD/GBP; USD/EUR; AUD/USD.**

## Exercise D:

(Arbitrage)

Suppose the following quotations of EX rate SKK/EUR on the Slovak Exchange Market listed by Bank X and Y:

	<b>BID</b>	<b>OFFER</b>
<b>Bank X</b>	41.8532	41.9555
<b>Bank Y</b>	41.9759	41.9961

You have 10 000 000 SKK. How much you can gain from arbitrage?

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Thank you for your attention!