Forex Practice Questions

Set 1

The following quote is given. USD 1 = CAD 1.1630/50.

Identify the country in which this is a direct quote. Find the mid rate, spread and the spread percentage. Calculate the inverse quote.

Cable Rate is GBP USD 1.6000 / 1.6070

In which country this is a direct quote?

Find the midrate, spread and the % spread. Calculate inverse quote.

Set 2

1. Suppose the spot ask exchange rate, Sa($|£), is $2.10 = £1.00 and the spot bid exchange rate, Sb($|£), is $2.07 = £1.00. If you were to buy $5,000,000 worth of British pounds and then sell them five minutes later without the bid or ask changing, how much of your $5,000,000 would be "eaten" by the bid-ask spread?
2. The dollar-euro exchange rate is $1.5968 = €1.00 and the dollar-yen exchange rate is ¥108.0030 = $1.00. What is the euro-yen (€/¥) cross rate?
3. The dollar-euro exchange rate is $1.5451 = €1.00 and the dollar-pound exchange rate is $2.0975 = £1.00. What is the euro-pound (€/£) cross rate?
4. The dollar-Swiss Franc exchange rate is $0.8922 = SF1.00 and the dollar-

Australian Dollar exchange rate is $0.7620 = AUD1.00. What is the Swiss Franc to Australian Dollar (SF/AUD) cross rate?

Set 3

1. Suppose that the one-year interest rate is 5.32% in the United States, the spot exchange rate is $1.5694/€1.00, and the one-year forward exchange rate is $1.5313/€1.00. Based on interest rate parity, what must the one-year interest rate be in the euro zone?

2. Suppose that the one-year interest rate is 4.53% in Italy, the spot exchange rate is $1.5296/€1.00, and the one-year forward exchange rate is $1.5570/€1.00. Based on interest rate parity, what must the one- year interest rate be in the United States?

4. Suppose that the one-year interest rate is 3.96% in the United States and 4.72% in Germany. The one- year forward exchange rate is $1.2337/€1.00. What should the spot exchange rate be to preclude arbitrage profits?

5. Suppose that the one-year interest rate is 7.06% in the United States and 5.36% in Germany. The spot exchange rate is $1.4811/€1.00. What should the one-year forward rate be to preclude arbitrage profits?

6. Suppose that the one-year inflation rate is 4.38% in the United States and 3.70% in Germany. The spot exchange rate is $1.4957/€1.00. What should the one-year forward rate be according to relative purchasing power parity?