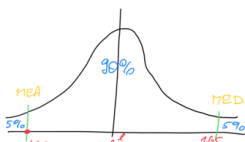


EX. 3) VAR

⇒ MAX. EXP. LOSS

- STATISTICS

- NORMAL DISTRIBUTION (MEAN VALUE, STAN. DEV., CONF. LEVEL)
 ↳ CHANGES



- **LONG** 1,000,000 EUR
 SR = 27.900 EUR/C2K
 $r^L = -0.1\%$
 SD = 0.5%
 CL = 95%

⇒ APPE.

$$MEA = r^L - 1.65 \times G = -0.925\%$$

$$VAR = \left(\frac{-0.1\% - 1.65 \times 0.5\%}{100} \right) \times 1,000,000 \text{ EUR} \times 27.900$$

$$= -258,075 \text{ C2K}$$

$$95 \leq 258,075$$

$$5 > 258,075$$

RISK OF RECEIV. LESS

- **SHORT** ⇒ DEPR.

$$MED = r^L + 1.65 \times G = 0.725\%$$

$$VAR = \left(\frac{-0.1\% + 1.65 \times 0.5\%}{100} \right) \times 1,000,000 \text{ EUR} \times 27.900$$

$$= +202,275 \text{ C2K}$$

RISK OF PAYING MORE

EX. RATE RISK MVB.

- 1, IDENT.
- 2, QUANT.
- 3, HEDGING

FACTORS

- (M)EL
- COSTS
- TYPE OF CURRENCY
- RELATIVE SIZE OF RISK
- EXPECTATIONS + PREDICTIONS
- PERSONALITY

⇒ HEDGING
 INTERNAL
 EXTERNAL

HEDGING

- EER

- COST OF HEDGE

REC. - COST LONG ↑
 PAY. + COST SHORT ↓

- EX. 1) **FORWARD HEDGE**

- **LONG** 1,000,000 USD

LOCAL CURR. (AP)

- TIME 2 MONTHS

- SR = 1.3475 EUR/USD

- FR = 1.3505 EUR/USD

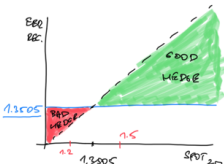


⇒ FORWARD TO SELL 1,000,000 USD ⇒ EUR @ 1.3505

$$\frac{1,000,000 \text{ USD}}{1.3505} = 740,467 \text{ EUR}$$

⇒ 100% HEDGE

- EER



- (+) - NO EXPL. COST
- SPREAD
- EASY TO USE
- 15%
- MARKET REPLAC.
- SPOT → FWD.

- (-) - NO FLEXIB.
- 100% HEDGE
- 60% COVERAGE