

## Set 1 - Arbitrages and speculations in international markets

### Basic terms:

- Exchange rates and interest rates quotations
- Bid/ask spread
- Arbitrages and speculations

### Exercise 1

Let's assume the following bid – ask quotations for EUR/USD in given interbank markets:

Tokyo	1.3556 - 83
London	1.3511 - 40

We don't account for any other transaction costs. Answer following questions:

- Is there any market discrepancy we could capitalize on?
- If so, what would be your steps you take when exercising a locational arbitrage, if you had 10 million EUR at disposal? What would the process of exchange rate realignment look like?
- How would the process and result change, if we had 10 million USD?

### Exercise 2

Let's assume the following bid – ask quotations in international foreign exchange markets:

EUR/CZK	25.760 - 90
USD/CZK	18.932 - 19.005
EUR/USD	1.3511 - 40

We don't account for any other transaction costs. Answer following questions:

- Is there any market discrepancy we could capitalize on?
- If so, what would be your steps you take when exercising a triangular arbitrage, if you had 10 million EUR at disposal? What would the process of exchange rate realignment look like?