Currency options

Basic terms

- Nature of the options contracts
- Basic positions and strategies
- The use of option contracts for hedging

Exercise 1

Let's assume that you buy from your bank a put option on EUR with the strike price 1.3000 EUR/USD and 1 month maturity. The premium amounts to 0.05 USD per 1 EUR. Draw the contingency diagram of gains and losses based on your position and the future spot exchange rate development. Calculate the breakeven points and gain/loss, when the current spot exchange rate at time of maturity is:

- EUR/USD 1.3700
- EUR/USD 1.2700
- EUR/USD 1.1700

Provide the same analysis for the seller of the option.

What is the impact of the basic determinants on the price of option?

Exercise 2

Let's assume that you buy a call option on EUR with the strike price 1.3500 EUR/USD and 1 month maturity. The premium amounts to 0.05 USD per 1 EUR. Draw the contingency diagram of gains and losses based on your position and the future spot exchange rate development. Calculate the breakeven points and gain/loss, when the current spot exchange rate at time of maturity is:

- EUR/USD 1.2700
- EUR/USD 1.3700
- EUR/USD 1.4700

Provide the same analysis for the seller of the option.

What is the impact of the basic determinants on the price of option?