First Homework Assignment

Finance 480

Due 2/25/2002

Where required in the following problems, use the data from the February 12th Wall Street Journal.

1. Categorize the following markets as normal, inverted, or neither, and give a brief explanation for the observed pattern of futures prices.
   a. Corn
   b. Eurodollars
   c. Natural Gas (NYM)
   d. Gold

2. For the NYM Gold Futures Contracts ...
   a. How many ounces of gold is a contract for?
   b. What is the first notice day for the June contract?
   c. Who are the two largest holders of warehouse stock?
   d. List two eligible suppliers of gold bullion.
   e. What is the maximum daily price fluctuation?

3. For the 3 month (90 day) April Eurodollar future,
   a. What is today’s settlement (closing) price?
   b. How will this contract finally be settled?
   c. How will the final settlement price be established? Why is this a potential problem?

4. Do problem 2.25

5. Use the handout I gave you on the four period futures process.
   a. Suppose you will have the asset for sale at time two. Use the three period futures to hedge — selling at time two. Compute the payoffs. Was the hedge effective?
   b. Suppose you need to purchase the asset at time three. Only one period futures contracts are available. Roll the hedge forward and compute the cost of the asset in each of the four future states. (There are actually 8 outcomes at time three, but you locked in the futures price at time 2.

6. Go to the liffe.com and find out about the product called universal stock futures. Write a brief description.

7. Why did the CBOT change the T-bond future to a 6% coupon? Explain!