Lecture 12: Foreign Exchange Quotations: Bid-Ask Spread

Short Questions:

1. The following exchange rates are available:
   i) Bank A: JPY120/USD
   ii) Bank B: CHF 1.6/USD
   iii) Bank C: JPY of 80/CHF

   Assume that a trader has CHF of 100mn. Can he do triangular arbitrage? Is so what would be the profit in CHF.


3. Can there be huge difference between the bid-ask spread for a given bank over a considerable period of time?

4. What is Bid-Ask midpoint?

5. How forex dealers change the bid-ask spread to manage their currency inventory?