Arbitrage&Pricing - Exercises Chapter 5

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Exercise 1. *A financial institution has just sold 1,000 seven-month European call options on the Japanese yen. Suppose that the spot exchange rate is 0.80 cent per yen, the exercise price is 0.81 cent per yen, the risk-free interest rate in the United States is 8% per annum, the risk- free interest rate in Japan is 5% per annum, and the volatility of the yen is 15% per annum.*

Calculate the delta, gamma, vega, theta, and rho of the financial institution's position. Interpret each number.