WHAT IS THE RATE OF RETURN IN DAY 1?

	Opening Position	Day 1	Day 2	Day 3	Day 4	Day 5	
Futures Price (or daily closing) (or settlement price)	1000	1100	1200	1050	950	900	
Buyer (Long)							
DEPOSIT Initial Margin	200 −						
TOP UP PAYMENTS Variation Margin	—	—	—	—	—	50	−
Margin Account	200	300	400	250	150	150	+
Total Net Gains	—	100	200	50	-50	-100	
Seller (Short)							
Initial Margin	200 −						
Variation Margin	—	50	100	—	—	—	−
Margin Account	200	150	150	300	400	450	+
Total Net Gains	—	-100	-200	-50	50	100	
MIMIMUM VALUE OF THE MARGIN ACCOUNT Maintenance Margin Level	150						

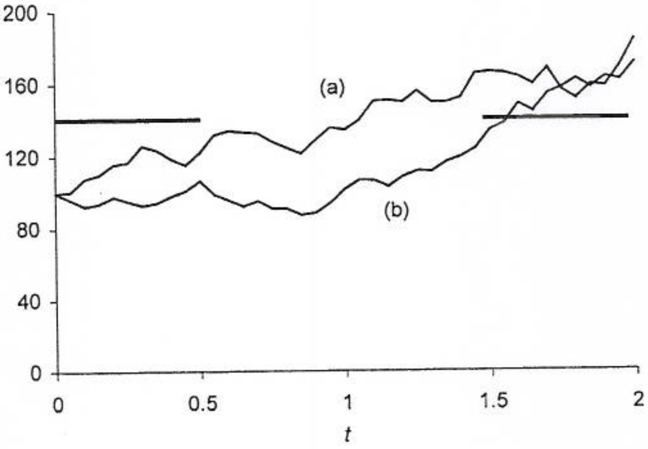


Figure 14.7 The intermittent barrier. Two varieties: barrier triggered if asset outside barrier on active days; barrier only triggered by asset price crossing barrier.

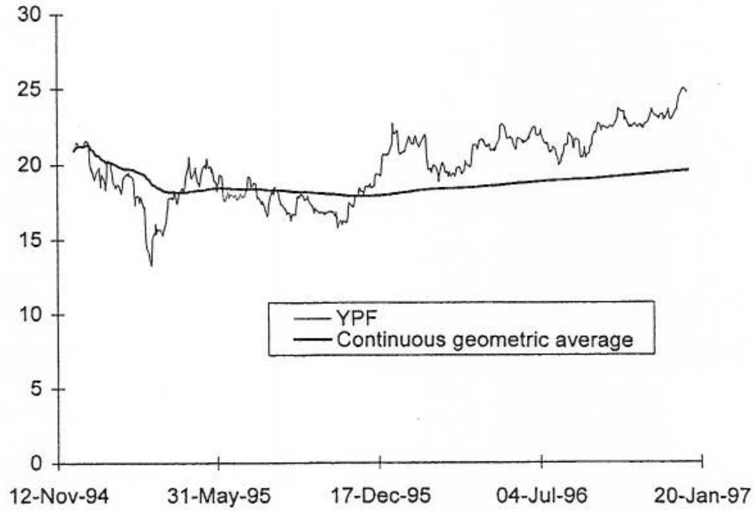
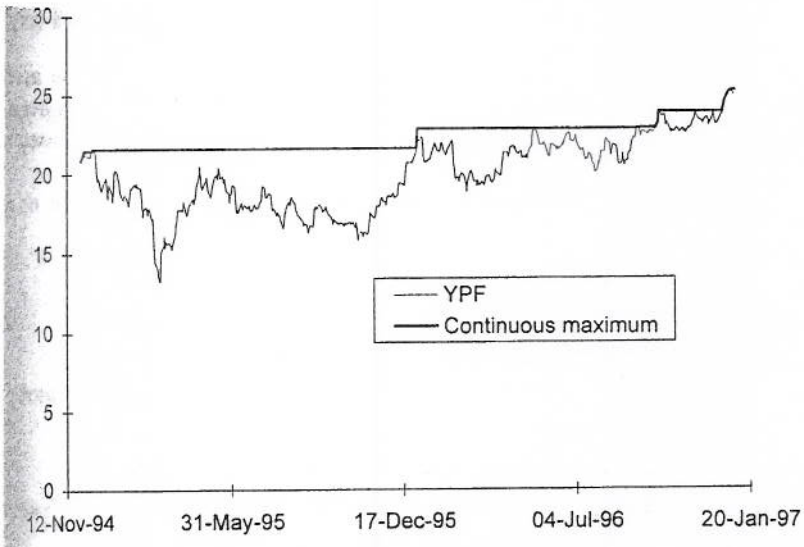


Figure 16.2 An asset price random walk and its continuous geometric running average.



2 An asset price path and the continuously-sampled maximum.

E 17.2-1

Interest Rate Swap

(1) Effective Date	(2) LIBOR	(3) Floating-Rate Payer's Payments*	(4) Fixed-Rate Payer's Payments†	(5) Net Interest Received by Fixed-Rate Payer (3) − (5)
March 23, 1995	.085	—	—	—
Sept. 23, 1995	.09	$.425M	$.475M	−$.050M
March 23, 1996	.095	.450	.475	− .025
Sept. 23, 1996	.10	.475	.475	0
March 23, 1997	.105	.500	.475	.025
Sept. 23, 1997	.11	.525	.475	.050
March 23, 1998		.550	.475	.075

*$\left(\frac{\text{LIBOR}}{2}\right)$($10,000,000)

†$\left(\frac{.095}{2}\right)$($10,000,000)

LE 17.2-3

Synthetic Fixed-Rate Loan

(1) Dates	(2) LIBOR	(3) Semiannual Interest on Variable Loan*	(4) Net Interest Received by Fixed-Rate Payer†	(5) Effective Interest Cost (3) − (4)
March 23, 1995	.085	—	—	—
Sept. 23, 1995	.09	$.425M	−$.050M	$.475M
March 23, 1996	.095	.450	− .025	.475
Sept. 23, 1996	.10	.475	0	.475
March 23, 1997	.105	.500	.025	.475
Sept. 23, 1997	.11	.525	.050	.475
March 23, 1998	—	.550	.075	.475

*Interest = $\left(\frac{\text{LIBOR}}{2}\right)$($10,000,000)

†See Table 17.2-1, column 5.

FIGURE 17.3-1

Currency Swap

American company issues a five-year, $25M bond at 10% interest that it swaps with a German company that issues a five-year, DM 62.5M bond at 7.5% interest