Quiz A for 9:45 Class: 7/16/13   Name _____

Assume that you can buy or sell (or short-sell) any of the following securities:

Risk-free bonds: bonds that mature one year from today earn 3% per year and bonds that mature two years from today earn 5% per year.

Risky securities:

	Prices Today:		Payoff one year from today if the economy is:		Payoff two years from today if the economy is:	
Security	Bid	Ask	Strong	Weak	Strong	Weak
Private Dell	$203	$207	$100	$50	$200	$100
MS Machine	$183	$186	$0	$0	$300	$100

Golden Fleece ETF: Golden Fleece ETF holds the following positions (per share): long 3 shares of Private Dell, short 1 share of MS Machine, short $100 of risk-free bonds that mature one year from today, and long $200 of risk-free bonds that mature two years from today. The bid price for this ETF is $495 and the ask price for the ETF is $500.

What set of transactions today will generate an arbitrage profit for you today. In your answer list all transactions required today and all individual and total cash flows today, a year from today, and two years from today. Use a "+" for an inflow of cash and a "-"for an outflow of cash. Note: I recommend setting up a table like is in the notes.