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Concept # 33
Interest Rate Derivatives



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Concept # 34

Forward Rate Agreement (FRA)

FRA is a contract that allows an entity to borrow or invest a certain amount of money at a certain specified date in future, at an interest rate agreed today.

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Concept # 34

Forward Rate Agreement (FRA)

FRA is a contract that allows an entity to borrow or invest a certain amount of money at a certain specified date in future, at an interest rate agreed today.

*For example,
X Ltd. enters into FRA with IDBI Bank on 01.04.2018 that it shall borrow from the bank at the rate of 12.5% per annum interest on 01.10.2018.*

Question 97

Consider the following

6 months borrowing rate is 11.2% p.a.

12 months borrowing rate is 12.2% p.a.

What should be 6 months FRA rate at 6 months forward
(i.e. 6/12 FRA)?



Question 97

Consider the following

6 months borrowing rate is 11.2% p.a.

12 months borrowing rate is 12.2% p.a.

What should be 6 months FRA rate at 6 months forward
(i.e. 6/12 FRA)?

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$\text{₹}1,00,000 \xrightarrow[\text{6 months}]{\text{@ 11.2\% p.a.}} \text{₹}1,05,600$

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