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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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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.

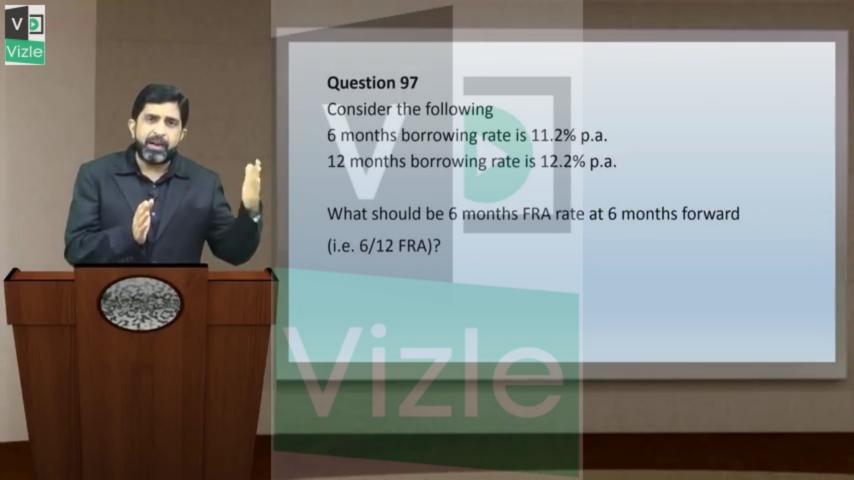


Question 97

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)?







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