

Remark 3.2

• Short hedges are appropriate when you know you will sell the asset in the future

• Long hedges are appropriate when you know you will buy the asset in the future

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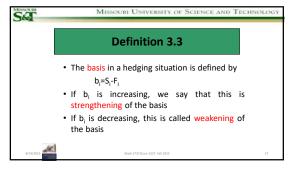
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Remark 3.2 (continued)

• Arguments for hedging: Minimizing risks arising from interest rates, exchange rates, and other market variables

• Arguments against hedging: Shareholders can do it themselves, risk may increase if competitors do not hedge, explaining a situation where there is a loss on the hedge and a gain on the underlying can be difficult

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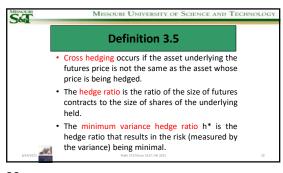
Example 3.4

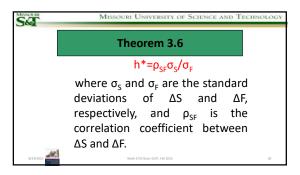
Assume a hedge is put in place at time 1 and closed out at time 2, S<sub>1</sub>=2.50, F<sub>1</sub>=2.20, S<sub>2</sub>=2.00, F<sub>2</sub>=1.90

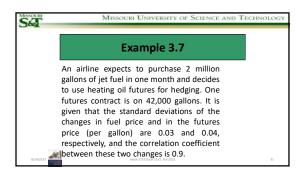
If hedger knows that asset will be sold at time 2, what is the effective price that is obtained for the asset with hedging?

If hedger knows that asset will be purchased at time 2, what is the effective price that is point asset with hedging?

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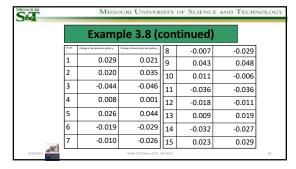


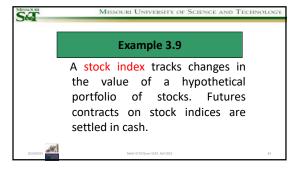




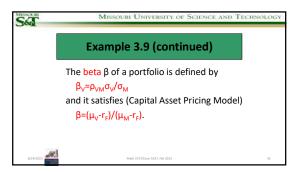
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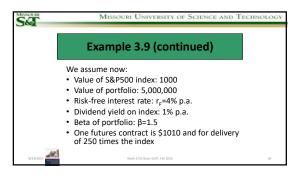
	Example 3.8	
mill and for	airline expects to purchase 2 lion gallons of jet fuel in one month I decides to use heating oil futures hedging. One futures contract is on 000 gallons.	





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