Question 1

Two companies, *Centrale del Latte (CDL)* and *Granarolo*, have been offered the following (annualized) interest rates on a 7 years long, €10 million loan:

	Fixed Rate	Floating Rate
CDL	8.4%	Euribor + 1.0%
Granarolo	7.0%	Euribor + 0.5%

CDL desires a fixed rate loan, *Granarolo* instead desires a floating rate loan.

(a) Describe the comparative advantages of *CDL* and *Granarolo* in capital markets.

(b) Calculate the total gain these comparative advantages can yield.

(c) Discuss how a swap contract can be devised to capture these comparative advantages.

(d) Define *two* swap contracts which: i) yield a return of 0.1% per year to *Mediobanca*, the financial intermediary which helps designing the two swaps; and ii) are equally attractive to the two companies.

Question 2

Consider the spreadsheet ATTGEBoeing.xls, pertaining to the share values of stocks AT&T, General Electric and Boeing observed daily between April 1995 and April 2005.

(a) Find the estimated values for the means, the variances and the covariances of the *daily* returns of these three stocks.

(b) How can you employ your answer to point (a) to obtain the corresponding values for the *monthly* returns?

(c) What is the correct method to calculate the estimates of the means, the variances and the covariances of the *monthly* returns?