Example F.1

An asset is priced at time 0 at $100. The discrete risk free rate is 4 %. The expiration for the forward contract is in three years. What is the fair forward price at time 0 ?

Solution

The formula to apply is : $F(0,T) = S_0(1+r)^T$.

We have $S_0 = 100$, $r = 4\%$ and $T = 3 \Rightarrow F(0,3) = 100 * 1.04^3 = 112{,}49$