

# JuiceNotes<sup>TM</sup>

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Economics

CFA Level 2  
**2026**

# Your CFA Journey with FinTree

A Guided Roadmap from Enrollment to Exam Day

At FinTree, we believe in smart preparation driven by structure, support, and consistency. Our unique LPR Methodology – Learn, Practice, Revise – is designed to guide you through each stage of your CFA prep journey with clarity and confidence.

## Roadmap from Enrollment to Exam Day

### 1. Enrollment & Onboarding:

- Receive a welcome call from your dedicated Success Manager (RM)
- Added to a WhatsApp broadcast list for timely updates
- Join a peer group to engage in discussions, share queries, and stay motivated
- Get a personalized study plan and guidance on how to start your prep journey

### 2. Learning Phase (Initial Months)

- Watch Main Concept Videos and read the official CFA curriculum
- Focus on understanding foundational concepts topic-wise
- Attend live weekend classes to deepen understanding and clarify doubts

### 3. Practice Phase (Mid Journey)

- Watch EOC and Blue Box videos to apply concepts to CFA-style questions
- Attempt Learning Evaluation Sessions (LES) for topic-wise testing
- Give Weekly Tests based on a structured test calendar
- Weekly Test results are discussed in class on Sunday for deeper insight into common errors and personal improvement

### 4. Revision Phase (Final 60 Days)

- Revise thoroughly using Juice Notes and Crash Course videos
- Solve the LES twice –
- Vertically (topic by topic)
- Horizontally (across topics like in actual exams)
- Attempt mock exams as per our 60-day revision schedule
- Review mocks in detail, focusing on time management, accuracy, and weak areas

### 5. Final Phase - IPASS

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# Economics

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# Placement Assistance Overview

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## What is Placement Assistance?

- Placement Assistance at FinTree is a structured support system that helps students transition smoothly from learning to employment.
- Our goal is to connect students with the right opportunities in the finance and analytics sectors through a personalized and practical approach.
- We find relevant job openings according to the skills and experience relevant with the candidates' expectations.

## Process of Placement Assistance

All relevant job openings are shared via **WhatsApp Broadcasts** to ensure students receive timely updates and can apply promptly.

### **How can candidates get added to Placement Broadcasts –**

- Placement team will share a form, which needs to be filled.
- Once the candidate has filled the form, he/she will be added to broadcast network within next 48hrs & the candidate will be notified.
- You will start receiving the latest opportunities on your WhatsApp Number.
- Candidates can apply in multiple openings based on their career aspiration.

We will also assist you with resume building, career counselling & interview preparation.

**If you need any assistance, request you to contact on +917447443045**

## Placement Highlights

- **Top Recruiters:** Goldman Sachs, PWC, Barclays, Crisil, BNP Paribas, HSBC
- **Key Roles:** Financial Analyst, Equity Research, IB Analyst, Risk & Valuation
- **Packages:**
  - Freshers: ₹4.5–8 LPA
  - Experienced: Up to ₹20 LPA and more...
- **Alumni Placed At:** Morningstar, Deutsche Bank, EY, Deloitte, Bank of America, Centrum, Purnartha

## Currency Exchange Rates: Understanding Equilibrium Value

### FinTree Fruit 1: INTRODUCTION

- $\frac{₹3}{\$}$   $\longrightarrow$  Price Currency  
 $\frac{\$}{₹}$   $\longrightarrow$  Base Currency
- $\frac{₹- \text{ Depreciated}}{\$ - \text{ Appreciated}} \frac{₹5}{\$}$   $\longleftarrow \frac{₹3}{\$}$   $\longrightarrow \frac{₹1}{\$}$   $\frac{\$ - \text{ Depreciated}}{₹ - \text{ Appreciated}}$

$$\Delta \text{ Base Currency} = \frac{\text{Closing value}}{\text{Opening value}} - 1$$

$$\Delta \text{ Price Currency} = \frac{\text{Opening value}}{\text{Closing value}} - 1$$

#### Example :

ZAR 52/\$  $\longrightarrow$  ZAR 57/\$  
 Calculate currency appreciation and depreciation.

#### Solution :

\$ Appreciated :  $57/52 - 1 = 9.62\%$

ZAR Depreciated :  $52/57 - 1 = 8.77\%$

### FinTree Fruit 2: FOREIGN EXCHANGE MARKET CONCEPTS

- An exchange rate is the price of the base currency expressed in terms of the price currency.
- The spot exchange rate is usually used for settlement on the second business day after the trade date, referred to as T + 2 settlement (the exception being CAD/USD, for which standard spot settlement is T + 1).
- Bid Price:** Price at which the counterparty buys one unit of the base currency.
- Offer Price:** Price at which the counterparty sells one unit of the base currency.

#### Important points about Bid-Ask spread:

- Bid-Offer Spread:** The offer price is higher than the bid price; the difference (spread) compensates for providing foreign exchange.
- Trading Options:** The requester can choose to trade at either the bid (sell base currency) or offer (buy base currency) quoted by the dealer . Trading at the bid is called “hit the bid,” and trading at the offer is called “paid the offer.”

**Interbank Market & Dealer Pricing :**

Market Type	Description
Interbank Market	Dealers buy/sell FX among themselves.
Clients' Market	Dealers provide bid-offer pricing to clients.

- **Interbank market allows:**
  - Dealers to adjust inventories and risk positions.
  - Distribution of FX to end users.
  - Transfer of FX risk to willing participants.
- Typical dealing size:  $\geq 1$  million units of base currency.
- Non-bank entities (institutional asset managers, hedge funds) can access the interbank market.

**Bid–Offer Spread in Interbank vs. Client Market :**

Market Type	Description
Interbank Market	Narrower bid–offer spread.
Clients' Market	Wider bid–offer spread.

- Most currencies quoted to four decimal places ( $0.0001 = 1$  pip), except JPY (two decimal places,  $0.01 = 1$  pip).

**Factors Affecting Bid–Offer Spread :****1. Interbank Market Bid–Offer Spread Factors**

Factor	Description
Currency Pair Liquidity	Major pairs (USD/EUR, JPY/USD, USD/GBP) have tighter spreads; exotic pairs have wider spreads.
Time of Day	Most liquid during London & NY business hours (08:00 - 11:00 NY time).
Market Volatility	Higher uncertainty widens spreads (e.g., geopolitical events, major data releases).

2. Transaction Size Impact

Transaction Size	Effect on Spread
Large (e.g., USD 50 million)	Wider spread due to difficulty in hedging.
Small (Retail <1 million units)	Wider spread compared to interbank.

3. Dealer-Client Relationship

Factor	Impact on Spread
Other Business Transactions	Dealer may offer a tighter spread to maintain broader business.
Repeat FX Business	Dealers may provide better pricing to frequent clients.
Client’s Credit Risk	Poor credit profile leads to wider spreads.

**FinTree Fruit 3 : ARBITRAGE CONSTRAINTS ON SPOT EXCHANGE RATE QUOTES**

The bid–offer quotes a dealer shows in the interbank FX market must respect two arbitrage constraints:

First, the bid shown by a dealer in the interbank market cannot be higher than the current interbank offer, and the offer shown by a dealer cannot be lower than the current interbank bid.

Second, the cross-rate bids (offers) posted by a dealer must be lower (higher) than the implied cross-rate offers (bids) available in the interbank market.

**Example :**

INR/\$ = 65.1020/ 65.2030      \$/€ = 1.2125/1.3135  
 Calculate market implied bid-ask quote on €/INR.

**Solution :**

Bid x Bid = New BID  
 Inverted Bid = New Ask

New Bid

65.2030 X 1.3135 = 85.6441  
 1/85.6441 = 0.0116

Ask x Ask = New ASK  
 Inverted Ask = New Bid

New Ask

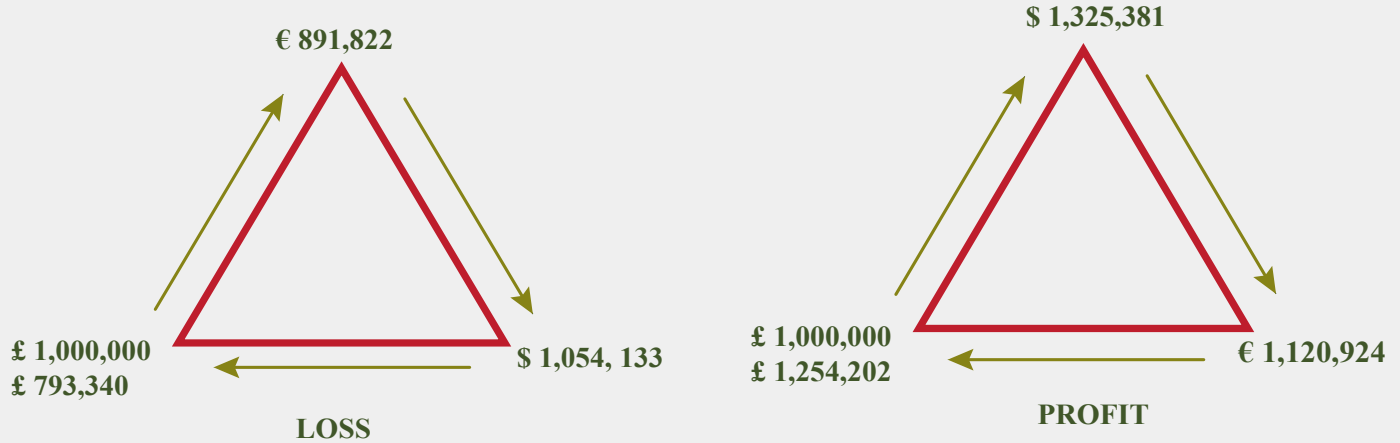
65.1020 X 1.2125 = 78.9361  
 1/ 78.9361 = 0.0126

**Note:**

UP the Quote  $\longrightarrow$  Multiply with BID

Down the Quote  $\longrightarrow$  Divide with ASK

**Example :** £/€ = 1.1189/1.1213    £/\$ = 0.7526/0.7545    \$/€ = 1.1820/1.1824  
 Calculate Arbitrage profit if you have £ 1 million.



**FinTree Fruit 4 : FORWARD MARKETS**

- Any exchange rate transaction that has a settlement date longer than T + 2 is a forward contract.
- MRR deposits use day count conventions of Actual/360 or Actual/365.
- Actual/360 calculates interest with 360 days per year; Actual/365 uses 365 days. The exception is GBP, which always uses Actual/365.
- Forward premium/ discount:

$$\text{Forward Rate} - \text{Spot Rate}$$

- Bid - Ask Forward points:

Ask PIPS > Bid PIPS  $\longrightarrow$  Premium (add the points to Spot)

Ask PIPS < Bid PIPS  $\longrightarrow$  Discount (subtract the points from Spot)

**Example 1:** Consider the given information.

$$\text{AUD/EURO} = 3.1725$$

$$90\text{-day MRR (AUD)} = 9\%$$

$$90\text{-day MRR (EURO)} = 0.2\%$$

Calculate the forward premium for a 90 day forward contract for AUD/EURO.

$$\begin{aligned} \text{Forward price} &= 3.1725 * [(1 + 9\% * 90/360) / (1 + 0.2\% * 90/360)] \\ &= 3.2422 \end{aligned}$$

$$\begin{aligned} \text{Forward premium} &= 3.2422 - 3.1725 \\ &= 0.0697 \end{aligned}$$

**Example 2:** Consider the given information.

$$\text{Bid / Ask: Spot } \$/\text{€} = 1.1820 / 1.1824$$

$$\text{Forward points} = 15.2 / 14.6$$

$$\begin{aligned} \text{3 month forward bid rate} &= 1.1820 - 15.2/10,000 \\ &= 1.1804 \end{aligned}$$

$$\begin{aligned} \text{3 month forward ask rate} &= 1.1824 - 14.6/10,000 \\ &= 1.1809 \end{aligned}$$

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### FinTree Fruit 5: THE MARK-TO-MARKET VALUE OF A FORWARD CONTRACT

- When a forward contract is initiated, the mark-to-market value of the contract is zero, and no cash changes hands.
  - The factors that affect the bid–offer spread for forward points are :
    1. the interbank market liquidity of the underlying currency pair
    2. the size of the transaction
    3. the relationship between the client and the dealer
    4. the term of the forward contract (longer the contract, wider the bid-ask spread)
  - As the term of the contract increases:
    1. liquidity in the forward market tends to decline
    2. the exposure to counterparty credit risk increases
    3. the interest rate risk of the contract increases
-

**Example :** Spot rate (USD/NZD) = 0.7825/0.7830  
 Three month forward points = -12.1/-10.0  
 Three month MRR (NZD) = 3.31%  
 Three month MRR (USD) = 0.31%  
 Short 10 million NZD, All in forward price = 0.7900  
 Calculate mark to market value on forward position.

**Forward rate (USD/NZD):**

**Bid rate =  $0.7825 - 12.1/10,000 = 0.78129$**

**Offer rate =  $0.7830 - 10/10,000 = 0.7820$**

**Profit =  $(0.7900 - 0.7820) * 10$  million  
 = 80,000 USD**

**Profit today =  $80,000 / (1 + 0.31\% * 90/360)$   
 = 79,938 USD**

## FinTree Fruit 6 : INTERNATIONAL PARITY CONDITIONS

### Key International Parity Conditions :

Covered Interest Rate  
Parity

Uncovered Interest Rate  
Parity

Forward Rate Parity

Purchasing Power Parity

International Fisher  
Effect

## FinTree Fruit 7 : COVERED AND UNCOVERED INTEREST RATE PARITY AND FORWARD RATE PARITY

### Covered and Uncovered Interest Parity :

Covered Interest Rate  
Parity

A fully hedged investment in a foreign money market should yield the same return as a similar domestic investment.

Forced by Arbitrage, always true.

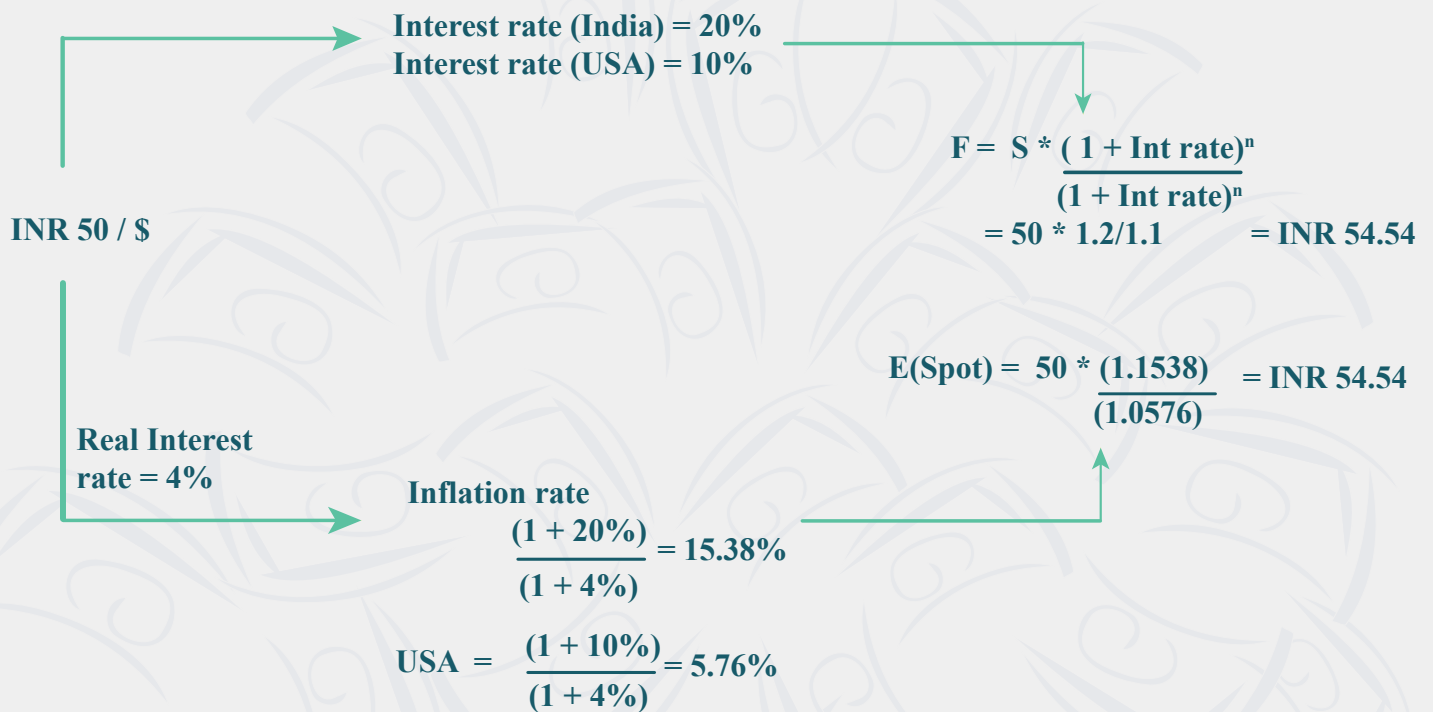
**Uncovered Interest Rate Parity**

Uncovered interest rate parity suggests that the change in the exchange rate should match the difference in interest rates between two countries.

Not forced by Arbitrage, may not always be true.

Assumes Risk Neutral investors

**Example : Interest Rate Parity (Calculation of forward rate and Expected Spot rate)**



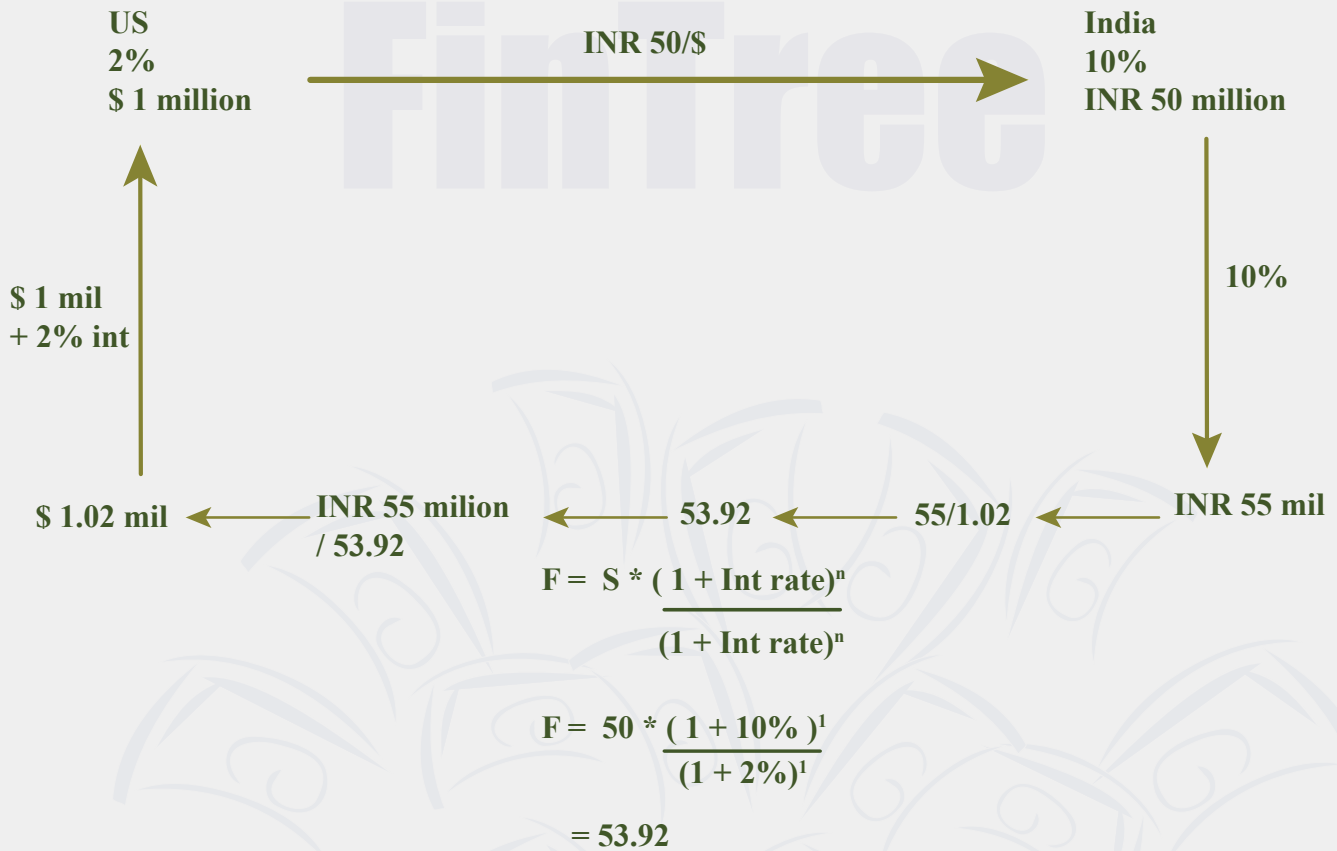
**Forward Rate Parity :**

The forward exchange rate will be an unbiased forecast of the future spot exchange rate if both covered and uncovered interest rate parity hold:

$$F_{f/d} = S_{f/d}$$

This condition is often referred to as forward rate parity.

**Example : Determining the forward rate**



**FinTree Fruit 8 : PURCHASING POWER PARITY**

**Absolute Version of PPP**

**Absolute PPP states that the exchange rate between two countries is determined by the ratio of their price levels.**

**Absolute PPP assumes all goods and services are tradable and that price indexes in both countries include the same items with identical weights.**

**Relative Version of PPP**

**Relative PPP suggests that the change in the exchange rate is driven by the difference in inflation rates between two countries.**

$$\% \Delta S_{fd} \cong \pi_f - \pi_d$$

## FinTree Fruit 9: THE FISHER EFFECT, REAL INTEREST RATE PARITY, AND INTERNATIONAL PARITY CONDITIONS

### International Fischer Relationship



$$1 + \text{Nominal Interest Rates} = (1 + \text{Real interest rates}) \times (1 + \text{Expected Inflation})$$

- The proposition that real interest rates will converge to the same level across different markets is known as the real interest rate parity condition.
- If real interest rates are the same across markets, the difference in nominal yields between countries is due to the difference in expected inflation. (International Fischer Effect)

### International Parity Conditions :

#### Covered Interest Rate Parity:

$$\text{Nominal interest rate}_A - \text{Nominal interest rate}_B = \% \text{ forward premium/discount}$$

#### Uncovered interest rate parity:

$$\text{Nominal interest rate}_A - \text{Nominal interest rate}_B = \text{Expected } \% \Delta \text{ spot rate}$$

#### Both covered and uncovered interest rate parity:

Forward exchange rate will be an unbiased predictor of the future spot rate

#### Ex ante purchasing power parity:

$$\% \Delta \text{ spot rate} = \text{Expected inflation}_A - \text{Expected inflation}_B$$

#### Fisher effect:

$$\text{Nominal interest rate}_A - \text{Nominal interest rate}_B = \text{Expected inflation}_A - \text{Expected inflation}_B$$

#### Both ex ante PPP and Fisher effect:

$$(\text{Nominal interest rate}_A - \text{Nominal interest rate}_B) + \% \Delta \text{ spot rate} = \text{Expected inflation}_A - \text{Expected Inflation}_B$$

