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Keivan Mallahi-Karai, Pedram Safari



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Future Exchange Rates and Siegel's Paradox

Keivan Mallahi-Karai^a, Pedram Safari^{b,c,*}^a*Jacobs University, Campus Ring I, 28759, Bremen, Germany*^b*Department of Mathematics, Harvard University, Cambridge, MA, USA*^c*Institute for Quantitative Social Science, Harvard University, Cambridge, MA, USA*

Abstract

Siegel's paradox is a fundamental question in international trade about exchange rates for futures contracts and has puzzled many scholars for over forty years. The unorthodox approach presented in this article leads to an *arbitrage-free* solution which is invariant under currency re-denominations and symmetric, as explained. We will also give a complete classification of all such aggregators in the general case. The formula obtained in this setting therefore describes all the negotiated no-arbitrage forward exchange rates in terms of a reciprocity function.

Keywords: Forward exchange rates, Futures contract

JEL: F31, C02, A12

*Corresponding author. Department of Mathematics, Harvard University, One Oxford Street, Cambridge, MA 02138, USA.

Email addresses: k.mallahikarai@jacobs-university.de (Keivan Mallahi-Karai), safari@fas.harvard.edu (Pedram Safari)

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