Date / /

Section - 4

(b)

Define the forward Contract with examples

Forward Contract :-

A forward contract is a simple customised contract b/w two parties to buy or sell an assets at a certain time in the future for a certain price

future contract, they are not traded on an exchange, rather traded in the over the counter market. usually b/w two financial Institutions or b/w a financial institution and one of its Clients,

Both parties to a forward contract expect to make or receive delivery of the commodity on the agreed upon date

All foward contract specify quantity, quality and delievery period.

There are two important distinguish b/w price and value.

① Forward value :-

Is what you can sell something or what you must pay to acquire something valuation,

② Forward price → Is the fixed price or rate at which the Transaction is Scheduled to occur at expiration

Features of foward Contract :-

① **Bilateral Contract :-**

Forward Contract are bilateral contract and hence they are exposed to counter parties risk.

There is risk of non-performance of obligation

② **Customised Contract :-**

Each contract is custom designed and hence is unique in term of contract size expiration date, the asset type, quality.

③ **Long and Short position :-**

In forward contract one of the parties takes a long position to agreeing to buy the asset at a certain specified future date.

(4) Delivery price :- The Specified price ~~in~~ a forward Contract is reffered to as a delivery price. The forward price for a particular forward contract at a particular time, is the delivery price would apply if the contract were entered into at the time.

Forward contract Example :- If you plan to grow 500 bushels of wheat next yrs you could sell your wheat for whatever the price is when you harvest it, or you could lock in a price now by selling a forward contract that obligates you to sell 500 blushes of wheat to say, Kellogs after the harvest for a fixed price.

You want to purchase a forward contract to lock in price and control your cost.

However you might end up overpaying or underpaying for the wheat depending on the market price, when you take delivery of the wheat.