LESSON 3: CURRENCY TRADING CONVENTIONS - WHAT YOU NEED TO KNOW BEFORE TRADING

Forex Training Summary and Quiz

Currency Trading Conventions

Currencies are traded in currency pairs - for example EUR/USD. In this case, EUR is the *base* currency and USD is the *quote* or *counter* currency.

When you buy the EUR/USD currency pair, you are simultaneously buying euros and selling an equivalent amount in US dollars. When selling EUR/USD, you are selling euros and buying USD.

Exchange rates for currency pairs are displayed with both a bid price (what you receive when selling) and an ask price (what you pay when buying).

The difference between the bid price and the ask price is known as the *spread*.

"Pip" stands for "price interest point" and is equal to 0.01 for exchange rates expressed to two decimal places. For rates expressed to four decimal places, one pip is equal to 0.0001.

Some brokers offer an additional digit of precision for certain exchange rates. This extra digit is commonly referred to as a "fractional pip".

Buy = to take a *long* position. Sell = to take a *short* position.

To close a position, you need to buy or sell an equal amount of the open order, thereby reducing the open position to zero.

Unrealized gains / losses are the profits or losses that would result if an open position were closed at the current exchange rate. Once the position is closed, gains and losses are said to be *realized*.

An end-of-day rollover - or rollover swap, is used by most forex brokers to close out an open position at the end of the business day. A new position is automatically created for the next business day and the net interest (interest earned minus interest paid) is calculated for the open position at the time of the rollover.

Putting It All Together

1. Currencies are traded in currency _________.

- groupings
- sets
- pairs
- derivatives

2. In the EUR/USD currency pair, EUR is the ________ currency and USD is the _________ or *counter* currency.

- long, short
- objective, subjective
- first, second
- base, quote

3. When you buy the EUR/USD currency pair, you are simultaneously _________ euros and _________ an equivalent amount in US dollars.

- exchanging, trading
- buying, selling
- selling, buying

shorting, going long

4. When selling EUR/USD, you are _________ euros and _________ USD.

exchanging, trading

buying, selling

selling, buying

going long, shorting

5. The difference between the bid price and the ask price is known as the _________.

vig

exchange rate

interest rate

spread

6. A _________ is equal to 0.01 for exchange rates expressed to two decimal places, or 0.0001 for exchange rates expressed to four decimal places.

trade

pip

selling price

spread

7. Some brokers offer an additional digit of precision for certain exchange rates. This extra digit is commonly referred to as a _________.

multiplier

fractional pip

realized gain

profit

8. Buy = _________ and Sell = _________.

short, long

cost, revenue

long, short

spread, exchange

9. To close a position, you need to buy or sell _________ amount of the open order, thereby reducing the open position to zero.

a greater

an equal

a partial

a different

10. _________ gains / losses are the profits or losses that would result if an open position were closed at the current exchange rate.

Future

Potential

Unrealized

Present value

11. Once the position is closed, gains and losses are said to be _________.

confirmed

theoretical

banked

realized

12. A _________ is used by most forex brokers to close out an open position at the end of the business day, and reopen an identical position as of the next day.

carry trade

rollover sw ap

margin calculation

spot trade

Score 12/12

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START LESSON 4