

Exercise 2: Currency Exchange

Consider n currencies w_1, \dots, w_n . The exchange rates are given in an $n \times n$ -matrix A with entries a_{ij} ($i, j \in \{1, \dots, n\}$). Entry a_{ij} is the exchange rate from w_i to w_j , i.e., for one unit of w_i one gets a_{ij} units of w_j .

Given a currency w_{i_0} , we want to find out whether there is a sequence i_0, i_1, \dots, i_k such that we make profit if we exchange one unit of w_{i_0} to w_{i_1} , then to w_{i_2} etc. until w_{i_k} and then back to w_{i_0} .

- (a) Translate this problem to a graph problem. That is, define a graph and a property which the graph fulfills if and only if there is a sequence of currencies as described above.
- (b) Give an algorithm that decides in $\mathcal{O}(n^3)$ time steps whether there is a sequence of currencies as described above. Explain the correctness and runtime.

Hint: $\log(a \cdot b) = \log a + \log b$.