



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