Assume the risk-free interest rate is 1.5%. Assume also that NIT Champs Inc’s stock price currently equals $74 per share. By next year, NIT’s stock price will rise by $7 per share or fall by $4 per share from its current price.

a. Calculate the value of a call on NIT if the strike price is $75?

b. Calculate the value of the equivalent put (strike price is also $75)?

Wall Street Journal Questions are on the back of this page.

\[
\begin{align*}
\text{a. } & \Delta = \frac{1.5^2 - 0.5^2}{0.5 \times 70 + 2} = 1.5455 \\
\text{b. } & B = \frac{0.5 - 0.5 \times \Delta}{1.015} = -32.6176 \\
\text{c. } & C = 74.5 + B = 2.75 \\
\text{d. } & \Delta = \frac{1.5^2 - 0.5^2}{0.5 \times 70 + 2} = -0.4545 \\
\text{e. } & B = \frac{0.5 - 0.5 \times \Delta}{1.015} = 36.2741 \\
\text{f. } & P = 74.5 + B = 2.64
\end{align*}
\]