Assume the risk-free interest rate is 1.1%. Assume also that First National BB Title Inc’s stock price currently equals $13 per share. By next year, First’s stock price will rise by $4 per share or fall by $3 per share from its current price.

a. Calculate the value of a call on NIT if the strike price is $12?

b. Calculate the value of the equivalent put (strike price is also $12)?

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

\[ \Delta = \frac{12 - 0}{12 - 12} = +0.7143 \]  

\[ b = \frac{0 - 10 \Delta}{1.011} = -7.0651 \]

\[ C = 13 \Delta + b = 2.22 \]

\[ \Delta = \frac{12 - 2}{12 - 12} = -0.2857 \]

\[ B = \frac{12 - 10 \Delta}{1.011} = 4.8043 \]

\[ P = 13 \Delta + b = 1.09 \]