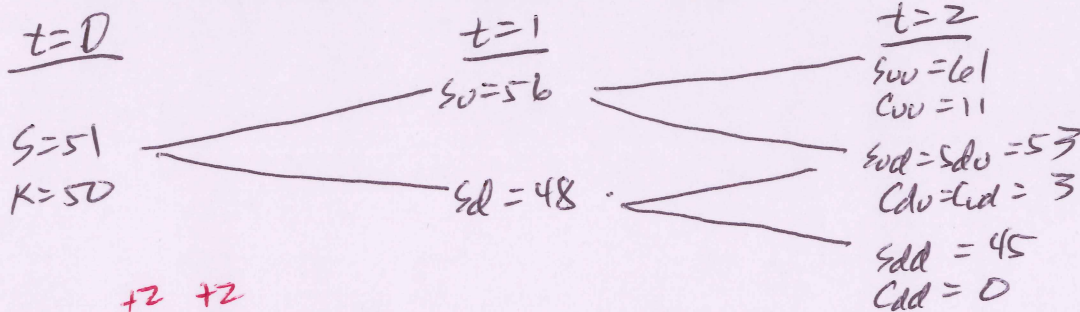


Assume the price per share for ReElect'Em Inc. stock currently equals \$51 per share. Assume also that ReElect'Em's stock price will increase by \$5 per share or drop by \$3 per share each of the next two years. Calculate the current price of a call on ReElect'Em stock if the risk-free interest rate is 1.5% and the strike price on the call is \$50.

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



$$+1 \quad D_u = \frac{11 - 3}{1.015 - \frac{53}{56}} = 1 \quad (9)$$

$$+1 \quad B_u = \frac{3 - 53(1)}{1.015} = -49.2611 \quad (9)$$

$$+1 \quad C_u = 56(1) - 49.2611 = 6.7389 \quad (7)$$

$$+1 \quad \Delta_d = \frac{3 - 0}{1.015 - \frac{45}{48}} = 0.375 \quad (9)$$

$$+1 \quad B_d = \frac{0 - 0.375(45)}{1.015} = -16.6256 \quad (9)$$

$$+1 \quad C_d = 0.375(48) - 16.6256 = 1.3744 \quad (7)$$

$$+1 \quad D = \frac{6.7389 - 1.3744}{1.015 - \frac{48}{56}} = 0.6706 \quad (9)$$

$$+1 \quad B = \frac{1.3744 - 0.6706(48)}{1.015} = -30.3574 \quad (9)$$

$$+1 \quad C = 0.6706(51) - 30.3574 = 3.8414 \quad (9)$$