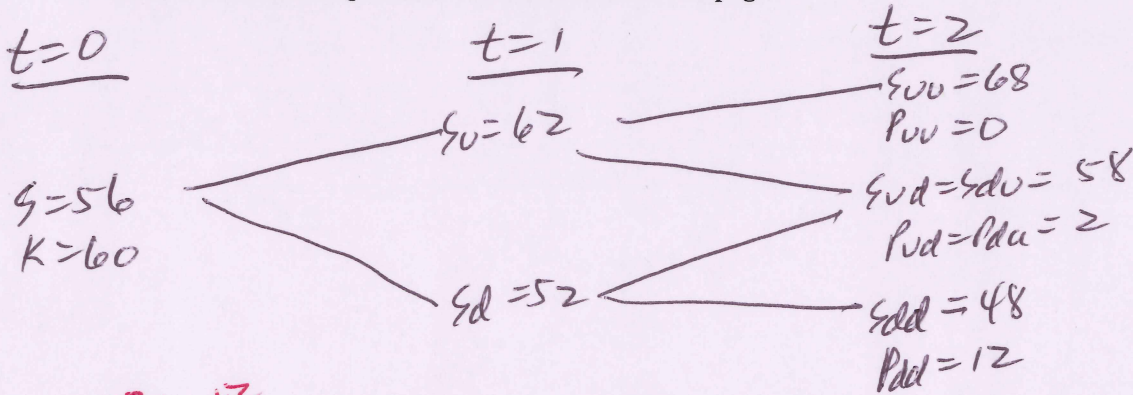


Assume the price per share for Toss'Em Inc. stock currently equals \$56 per share. Assume also that Toss'Em's stock price will increase by \$6 per share or drop by \$4 per share each of the next two years. Calculate the current price of a put on Toss'Em stock if the risk-free interest rate is 2.5% and the strike price on the put is \$60.

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



$$+1 \Delta_u = \frac{0 - 2}{268 - 582} = -0.2 \text{ (9)}$$

$$+1 B_u = \frac{2 - (-0.2)(58)}{1.0252} = 13.2683 \text{ (9)}$$

$$+1 P_u = 62(-0.2) + 13.2683 = 0.8683 \text{ (7)}$$

$$+1 \Delta_d = \frac{2 - 12}{258 - 482} = -1 \text{ (9)}$$

$$+1 B_d = \frac{12 - (-1)(48)}{1.0252} = 58.5366 \text{ (9)}$$

$$+1 P_d = 52(-1) + 58.5366 = 6.5366 \text{ (7)}$$

$$+1 \Delta = \frac{0.8683 - 6.5366}{258 - 482} = -0.5668 \text{ (9)}$$

$$+1 B = \frac{6.5366 - (-0.5668)(52)}{1.0252} = 35.1334 \text{ (9)}$$

$$+1 P = -0.5668(56) + 35.1334 = 3.3909 \text{ (7)}$$