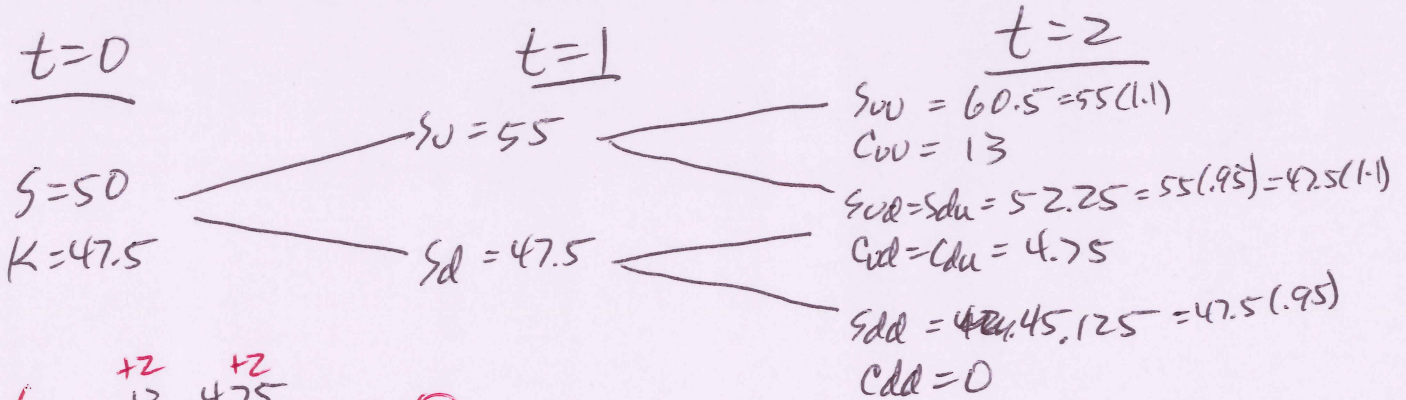


Quiz A for 4:00 Class: 11/05/12

Name Key

Assume the price per share for ReElect'Em Inc. stock currently equals \$50 per share. Assume also that ReElect'Em's stock price will increase by 10% per share or drop by 5% 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 \$47.50.

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



$$+1 \Delta_u = \frac{13 - 4.75}{1.1 \cdot 60.5 - 1.05 \cdot 52.25} = 1 \quad (9)$$

$$+1 B_u = \frac{4.75 - 1(52.25)}{1.015} = -46.798 \quad (9)$$

$$+1 C_u = 55(1) - 46.798 = 8.202 \quad (7)$$

$$+1 \Delta_d = \frac{4.75 - 0}{1.1 \cdot 52.25 - 1.05 \cdot 45.125} = 0.6667 \quad (9)$$

$$+1 B_d = \frac{0 - 0.6667(45.125)}{1.015} = -29.6388 \quad (9)$$

$$+1 C_d = 0.6667(47.5) - 29.6388 = 2.0279 \quad (7)$$

$$+1 \Delta = \frac{8.202 - 2.0279}{1.1 \cdot 55 - 1.05 \cdot 47.5} = 0.8232 \quad (9)$$

$$+1 B = \frac{2.0279 - 0.8232(47.5)}{1.015} = -36.5265 \quad (9)$$

$$+1 C = 50(0.8232) - 36.5265 = 4.6338 \quad (7)$$