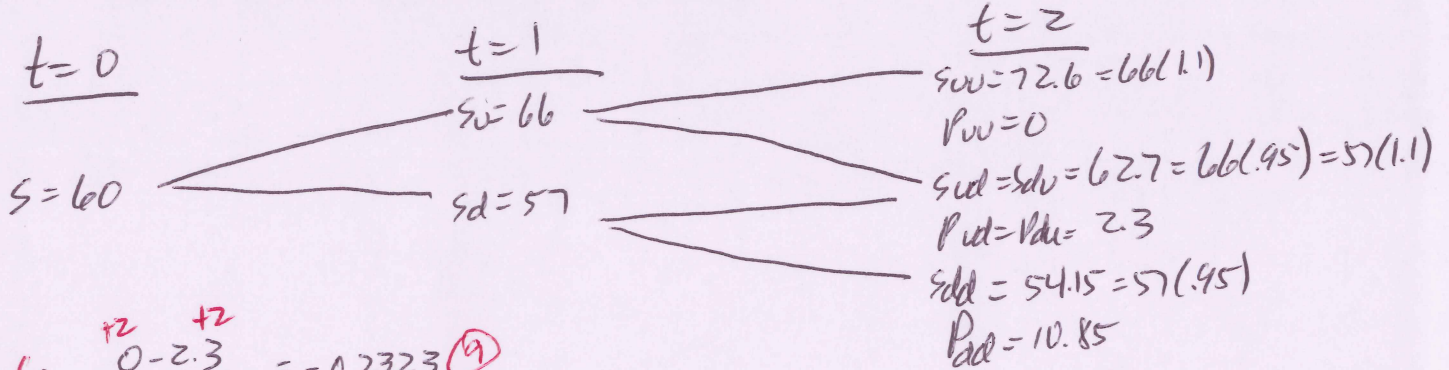


Quiz B for 4:00 Class: 11/05/12

Name Key

Assume the price per share for Toss'Em Inc. stock currently equals \$60 per share. Assume also that Toss'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 put on Toss'Em stock if the risk-free interest rate is 2.5% and the strike price on the put is \$65.

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



$$+1 \Delta_u = \frac{0 - 2.3}{72.6 - 62.7} = -0.2323 \text{ (9)}$$

$$+1 B_u = \frac{2.3 - (-0.2323)(62.7)}{1.025} = 16.4553 \text{ (9)}$$

$$+1 P_u = 66(-0.2323) + 16.4553 = 1.22 \text{ (9)}$$

$$+1 \Delta_d = \frac{2.3 - 10.85}{62.7 - 54.15} = -1 \text{ (9)}$$

$$+1 B_d = \frac{10.85 - (-1)(54.15)}{1.025} = 63.4146 \text{ (9)}$$

$$+1 P_d = 57(-1) + 63.4146 = 6.4146 \text{ (9)}$$

$$+1 \Delta = \frac{1.22 - 6.4146}{66 - 57} = -0.5881 \text{ (9)}$$

$$+1 B = \frac{6.4146 - (-0.5881)(66)}{1.025} = 38.9609 \text{ (9)}$$

$$+1 P = 60(-0.5881) + 38.9609 = 3.6764 \text{ (9)}$$