Quiz B: 10/31/12 Name ______________________________

Assume a stock worth $100 will rise by 20% or fall by 10% by one year from today. Assume also that the risk-free interest rate is 2%.

a. What is the value of a call with a $110 strike price?
b. What investments would be required to create a portfolio that duplicates the payoff on the ~~put~~ call?
c. What would be the payoff on each part of the portfolio (in part b) if the stock rises 20%?
d. What would be the payoff on each part of the portfolio (in part b) if the stock falls 10%?

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