Quiz B for 2:30 Class: 11/07/12 Name ____________________________

Recount Inc. has a current price of \$40 per share. For each of the next two years, Recount's stock price will either rise \$12 per share or fall \$8 per share. Thus, Recount's stock price will equal either \$52 or \$32 per share one year from today, and Recount's stock price will equal either \$64 or \$44 or \$24 per share two years from today. Assume that the risk-free interest rate equals 6% and that replicating portfolios for a particular put on Recount would need to consist of the following:

Today: $\Delta = -0.6328$, $B = +33.4155$
One year from today:
If Recount's stock price climbs to \$52: $\Delta = -0.30$, $B = +18.1132$
If Recount's stock price falls to \$32: $\Delta = -1.0$, $B = +47.1698$

a. What transactions would be required today and one year from today to build the replicating portfolios?
b. Assume Recount's stock price climbs to \$52 next year. Calculate the possible payoffs two years from today on the portfolio you built one year from today ($\Delta = -0.30$, $B = +18.1132$)?
c. Assume Recount's stock price falls to \$32 next year. Calculate the possible payoffs two years from today on the portfolio you build one year from today ($\Delta = -1.0$, $B = +47.1698$) ?

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