

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

Name _____

Assume you are planning to buy a put on McDonald's with an exercise price of \$85 that expires 67 days from today on 1/18/13. As soon as the put expires, you plan to buy a second put that expires 95 days from today on 2/15/13. McDonald's stock price currently equals \$84.75 per share. By 1/18/13, you expect McDonald's stock price to fall to \$82 per share and by 2/15/13, you expect McDonald's stock price to fall to \$75 per share. By a year from today (11/12/13), you expect McDonald's stock price to rebound to \$84 per share.

Using the following information, Set up the equations and plug in as many numbers as possible to use the Black-Scholes option pricing model to value the option you are planning to buy today.

Between now and:

Standard deviation of returns on:	<u>1/18/13</u>	<u>2/15/13</u>	<u>11/12/13</u>
McDonald's assets	9.4%	11.3%	12.2%
McDonald's stock	18.1%	22.5%	24.3%
McDonald's bonds	1.5%	1.6%	1.8%
An equivalent call	36.6%	44.5%	48.4%
This put	29.0%	31.0%	34.2%

Annualized return on:	<u>1/17/13</u>	<u>2/14/13</u>	<u>11/11/13</u>
U.S. Treasuries (all < 1%):	0.097%	0.120%	0.204%
McDonald's bonds	0.11%	0.14%	0.22%

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