

Quiz B for 4:00 Class: 11/14/12

Name _____

Use the following information to set up the calculations required to determine a) the portfolio of DR Horton (DHI) stock and risk-free bonds required to duplicate a put on DHI that expires on 5/17/13 (184 days from today) with a strike price of \$20 and to b) determine the beta of the put. You plan to hold the put for 93 days through 2/15/13.

Information on market values per share of:

DHI assets = 40; DHI stock = 19.25; DHI bonds = 20.75; this put = 2.63; an equivalent call = 1.83

Information on book values per share of:

DHI assets = 50; DHI stock = 20; DHI bonds = 30

Information on standard deviation of returns on:

DHI assets = 20%; DHI stock = 40%; DHI bonds = 10%; this put = 80%; an equivalent call = 110%

Information on betas on:

DHI assets = 1.1; DHI stock = 1.39; DHI bonds = 0.3

Information on required returns on:

DHI assets = 8.7%; DHI stock = 10.7%; DHI bonds = 3.1%

Information on expected dividends on DHI stock: 2/8 (86 days) = 0.038; 5/10 (177 days) = 0.039; 8/11 (270 days) = 0.04

Information on returns on Treasury returns (all < 1%) maturing on: 2/8 = 0.071%, 2/14 = 0.091%; 5/10 = 0.112%; 5/16 = 0.132%; 8/11 = 0.162%

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