

**Quiz B: 3/28/12**

Name & Time \_\_\_\_\_

**Quiz:** Assume that Barnes & Noble's stock price is \$14 and that you can buy or sell a call on Barnes & Noble for \$0.75 and can buy or sell a put on Barnes & Noble for \$6.00. The strike price on both options is \$20 and both expire four months from today. You can buy a Treasury bond that matures for \$20 four months from today for \$19.94.

- a. Given this information, what set of transactions today will generate an arbitrage profit? What is your profit today from these transactions?
- b. Show that the payoffs of the transactions you set up in part "a" sum to zero if Barnes & Noble's stock price has fallen to \$15 when the options expire four months from today.
- c. Show that the payoffs of the transactions you set up in part "a" sum to zero if Barnes & Noble's stock price has risen to \$25 when the options expire four months from today.

**Note: Bonus WSJ Questions on back of page**