Quiz D: 4/4/12 Name & Time ___________________________

Quiz: Assume a firm's stock price currently equals $50 and that its stock price will either rise by 20% or fall by 10% one year from today. Assume also that the risk free rate of return is 5% and that you are evaluating a put with a strike price of $55.
a. What are the potential payoffs on the long put?
b. What portfolio of stocks and risk-free bonds will duplicate the payoffs on the put?
c. What payoff would each part of the portfolio generate if the stock price rises by 20% next year?
d. What payoff would each part of the portfolio generate if the stock price falls by 10% next year?
e. What is the value of the long put today?

Note: Bonus WSJ Questions on back of page