

Quiz D: 4/11/12

Name & Time _____

Quiz: Suspend Campaign Company has a current stock price of \$40. For each of the next two years, Suspend's stock price will either rise by \$5 per share or fall by \$3 per share.

- a. Set up the calculations needed to determine the value of a call today with a strike price of \$40 if the risk-free interest rate is 2% per year and is not expected to change.
- b. Set up the calculations needed to determine how many bonds would you need to buy or sell a year from today if Suspend's stock price rises by \$5 per share next year?

Note: Bonus WSJ Questions on back of page