

Quiz A for 1:00 Class: 04/08/13

Name Key

Assume the risk-free interest rate is 1.5%. Assume also that NIT Champs Inc's stock price currently equals \$74 per share. By next year, NIT's stock price will rise by \$7 per share or fall by \$4 per share from its current price.

- Calculate the value of a call on NIT if the strike price is \$75?
- Calculate the value of the equivalent put (strike price is also \$75)?

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

$$a. \Delta = \frac{6 - 0}{81 - 70} = +.5455 \quad (11)$$

$$B = \frac{0 - 70(\Delta)}{1.015} = -37.6176 \quad (9)$$

$$C = 74\Delta + B = 2.75 \quad (5)$$

$$b. \Delta = \frac{0 - 5}{81 - 70} = -0.4545 \quad (11)$$

$$B = \frac{5 - 70(\Delta)}{1.015} = 36.2741 \quad (9)$$

$$P = 74\Delta + B = 2.64 \quad (5)$$