Quiz B for 1:00 Class: 04/08/13   Name ___*Key*___

Assume the risk-free interest rate is 1.1%. Assume also that First National BB Title Inc's stock price currently equals $13 per share. By next year, First's stock price will rise by $4 per share or fall by $3 per share from its current price.

a. Calculate the value of a call on NIT if the strike price is $12?

b. Calculate the value of the equivalent put (strike price is also $12)?

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

a. $\quad \overset{+3}{(}\Delta = \dfrac{\overset{+2}{5} - \overset{+2}{0}}{\underset{+2}{17} - \underset{+2}{10}} = +0.7143 \;\; ⑪$

$\overset{+3}{(}B = \dfrac{\overset{+2}{0} - \overset{+2}{10\Delta}}{\underset{+2}{1.011}} = -7.0651 \;\; ⑨$

$\overset{+3}{(}C = \overset{+2}{13}\Delta + B = 2.22 \;\; ⑤$

b. $\quad \overset{+3}{(}\Delta = \dfrac{\overset{+2}{0} - \overset{+2}{2}}{\underset{+2}{17} - \underset{+2}{10}} = -0.2857 \;\; ⑪$

$\overset{+3}{(}B = \dfrac{\overset{+2}{2} - \overset{+2}{10\Delta}}{\underset{+2}{1.011}} = 4.8043 \;\; ⑨$

$\overset{+3}{(}P = \overset{+2}{13}\Delta + B = 1.09 \;\; ⑤$