

Assume the risk-free interest rate is 1.3%. Assume also that Blowout Iowa Inc's stock price currently equals \$20 per share. By next year, Blowout's stock price per share will rise by 20% or fall by 10% from its current level.

a. Calculate the value of a call on Blowout if the strike price is \$19?

b. Calculate the value of the equivalent put (strike price is also \$19)?

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

$$a. \Delta = \frac{5 - 0}{24 - 18} = 0.8333 \quad (11)$$

$$B = \frac{0 - 18\Delta}{1.013} = -14.8095 \quad (9)$$

$$C = 20\Delta + B = 1.86 \quad (5)$$

$$b. \Delta = \frac{0 - 1}{24 - 18} = -0.1667 \quad (11)$$

$$B = \frac{1 - 18\Delta}{1.013} = 3.9487 \quad (9)$$

$$P = 20\Delta + B = 0.6153 \quad (5)$$