Quiz B for 2:30 Class: 04/08/13 Name Key

Assume the risk-free interest rate is 1.7%. Assume also that Blowout Iowa Inc's stock price currently equals $10 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 $11?

b. Calculate the value of the equivalent put (strike price is also $11)?

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

a. +3 ($\Delta = \frac{1-0}{12-9} = 0.3333$) (11)

+3 ($B = \frac{0-9\Delta}{1.017} = -2.9499$) (9)

+3 ($C = 10\Delta + B = 0.38$) (5)

b. +3 ($\Delta = \frac{0-2}{12-9} = -0.6667$) (11)

+3 ($B = \frac{2-9\Delta}{1.017} = 7.8663$) (9)

+3 ($P = 10\Delta + B = 1.20$) (5)