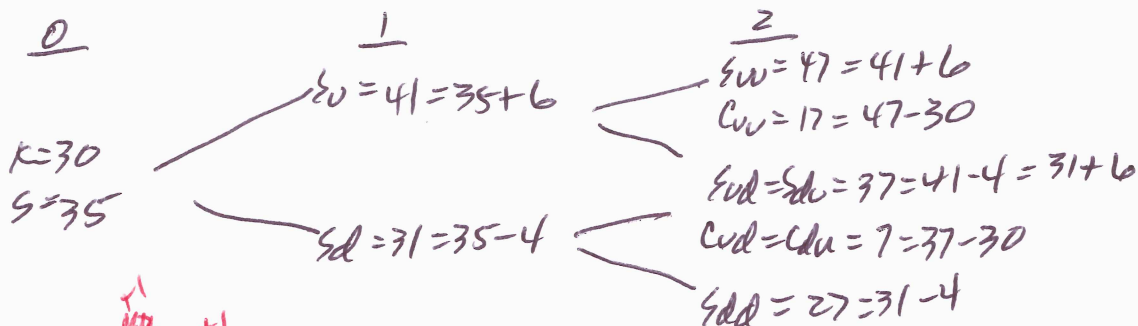


Assume that Accidental Petroleum's stock price currently equals \$35 per share and that its stock price will rise by \$6 or fall by \$4 each of the next two years. If the risk-free interest rate is 1% per year, what is the value today of a call on Accidental with a strike price of \$30 that expires in two years?

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



$$+1 \Delta_u = \frac{17 - 7}{47 - 37} = +1 \quad \text{(5)}$$

$$+1 B_u = \frac{7 - 1(7)}{1.01} = -29.7030 \quad \text{(5)}$$

$$+1 C_u = 41(1) - 29.703 = 11.2970 \quad \text{(5)}$$

$$+1 \Delta_d = \frac{0 - 0}{37 - 27} = +0.7 \quad \text{(5)}$$

$$+1 B_d = \frac{0 - 0.7(27)}{1.01} = -18.7129 \quad \text{(5)}$$

$$+1 C_d = 31(0.7) - 18.7129 = 2.9871 \quad \text{(5)}$$

$$+1 \Delta = \frac{11.2970 - 2.9871}{41 - 31} = +0.8310 \quad \text{(5)}$$

$$+1 B = \frac{2.9871 - 0.8310(31)}{1.01} = -22.5481 \quad \text{(5)}$$

$$+1 C = 35(0.8310) - 22.5481 = 6.5366 \quad \text{(5)}$$