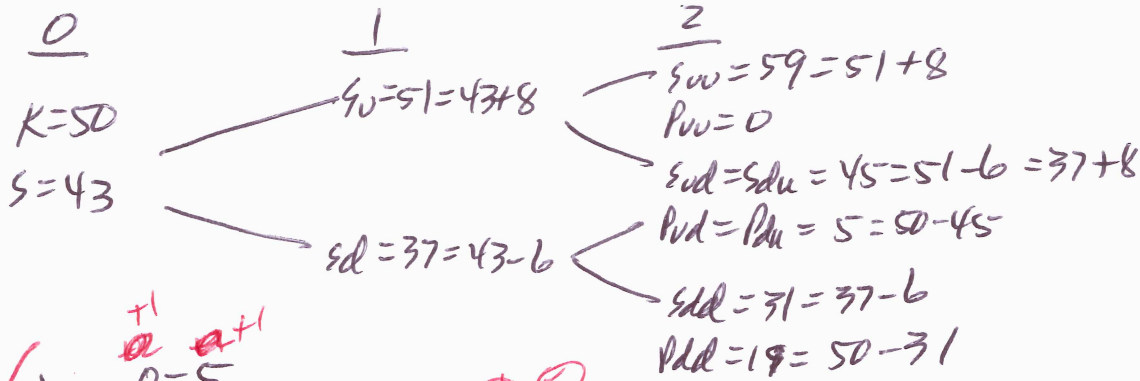


Quiz B for 2:30 Class: 04/10/13

Name Key

Assume that Accidental Petroleum's stock price currently equals \$43 per share and that its stock price will rise by \$8 or fall by \$6 each of the next two years. If the risk-free interest rate is 1% per year, what is the value today of a put on Accidental with a strike price of \$50 that expires in two years?

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



$$\Delta_u = \frac{0 - 5}{59 - 45} = -0.3571$$

$$B_u = \frac{5 - (-0.3571)(45)}{1.01} = 20.8628$$

$$P_u = 51(-0.3571) + 20.8628 = 2.6485$$

$$\Delta_d = \frac{5 - 19}{45 - 31} = -1$$

$$B_d = \frac{19 - (-1)(31)}{1.01} = 49.505$$

$$P_d = 37(-1) + 49.505 = 12.505$$

$$\Delta = \frac{2.6485 - 12.505}{51 - 37} = -0.7040$$

$$B = \frac{12.505 - (-0.704)(37)}{1.01} = 38.1724$$

$$P = 43(-0.704) + 38.1724 = 7.899$$