

Quiz A for 9:45 Class: 08/06/13

Name _____

Note: Answer everything on a per-share basis.

Assume that Dellay Computers has a current stock price of \$50 per share and its stock price will rise by 20% or fall by 10% each of the next two years. You would like to build a portfolio today that is equivalent to a call that expires two years from today with a \$45 strike price. The risk-free interest rate is 1%.

- a. What portfolio today is equivalent to the call?
- b. What will it cost today to build this portfolio?
- c. How will you need to rebalance your portfolio one year from today if Dellay's stock price falls next year?