

**Quiz B: 8/4/14**

Name \_\_\_\_\_

Assume the bid price for Proctor & Gamble is \$79.64 and that the ask price for Proctor & Gamble is \$79.66. Assume also that a call on Proctor & Gamble that expires on October 18 (75 days from today) with a strike price of \$80 has a bid price of \$1.65 and an ask price of \$1.74. Assume the equivalent put (same expiration and strike) has a bid price of \$2.09 and an ask price of \$2.16. Assume that the risk-free interest rate is 1%.

Note: Answer the following on a per-share basis. Use a “+” for inflows and a “-“ for outflows.

- a. What transactions today will lead to an arbitrage profit today?
- b. What individual and net cash flows will be created by each of your transactions (in part a) on October 18 if Proctor & Gamble stock ends up at \$84. What if Proctor & Gamble ends up at \$77?