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...ing exercises similar to those we followed above, we could value f of C_{up} and C_{down} , then value C_t from knowledge of C_{up} and C_{down} and knowledge of C_u and C_d . And there is no reason to stop at 6-month or break the year into four 3-month units, or twelve 1-month units, of which would be posited to have a two-state process. Although quite numerous and correspondingly tedious, they are easy to program, and such computer programs are used widely by participants in the option

Example 21.1 Binomial Option Pricing

Suppose that the risk-free interest rate is 5% per 6-month period and we wish to value a call option with exercise price \$110 on the stock described in the binomial price tree just above. We start by finding the value of C_1 . From the work done in the binomial price tree just above, we start by finding the value of C_1 .



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Capital One Bank

CASHIER'S CHECK

9104693245

DATE 12/30/2019

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BRANCH 144444

BRANCH ID 40308

TWO THOUSAND THREE HUNDRED NINETY FIVE DOLLARS AND 08 CENTS

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