Stock price (S): $40

Strike price (K): $45

Time (t): 4 months; 4/12 = 0.33

Risk-free rate (r): 3%/year; 3/100 = 0.03

Mean return: 7%/year

Standard deviation (: 40%/year; 40/100 = 0.4

Call-price (C): ?

Black-Scholes call option pricing formula:

*Equation I*

Where,  *Equation II*

*Equation III*

Therefore,

and,

d1 = -0.358 and d2 = -0.587

From the Normal Distribution Table,

N(d1) = 0.360

N(d2) = 0.279

Recall Black-Scholes call price formula from equation (i)

Therefore, the call price is 1.791