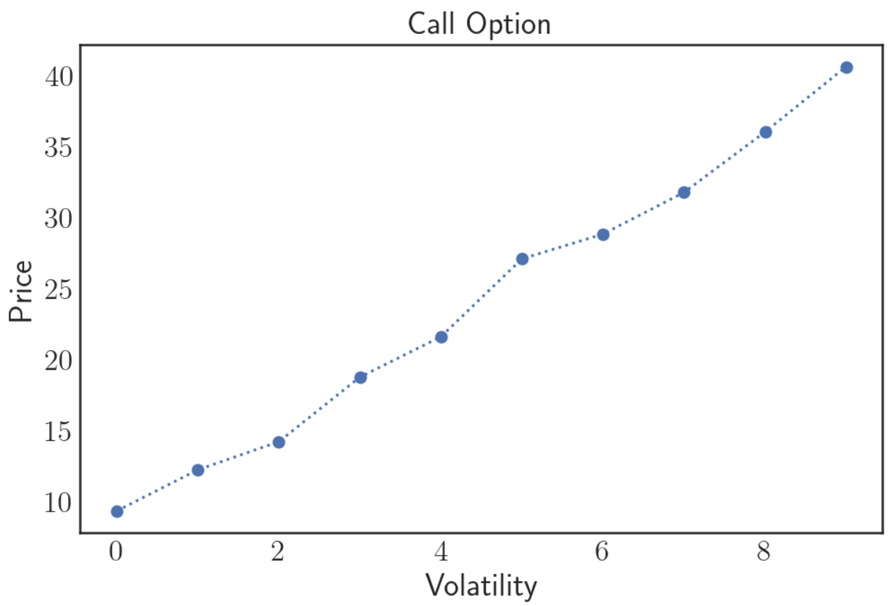
Problem Set 6

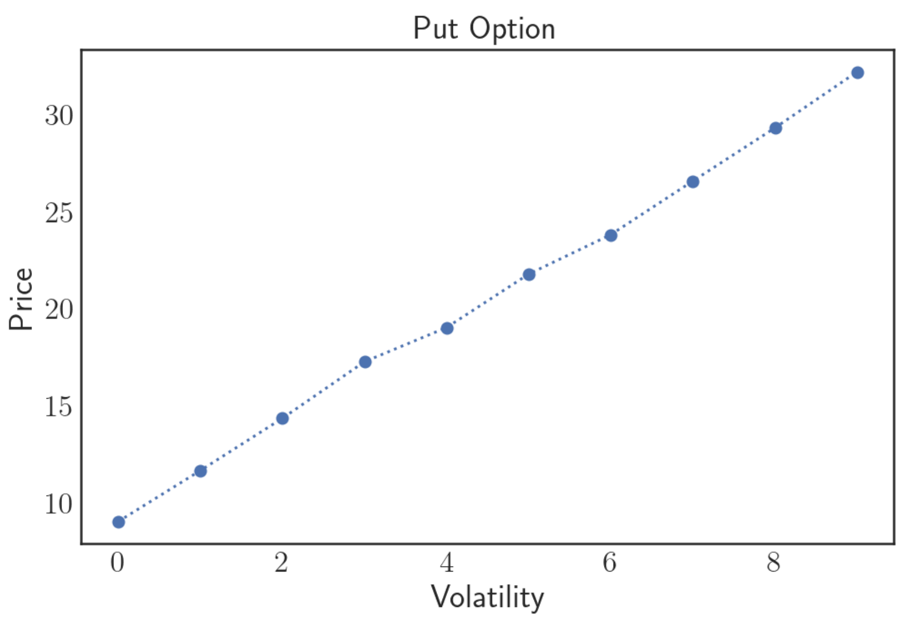
Kaiyue Wu

Question 1.

Call Option Prices



Put Option Prices



Question 2

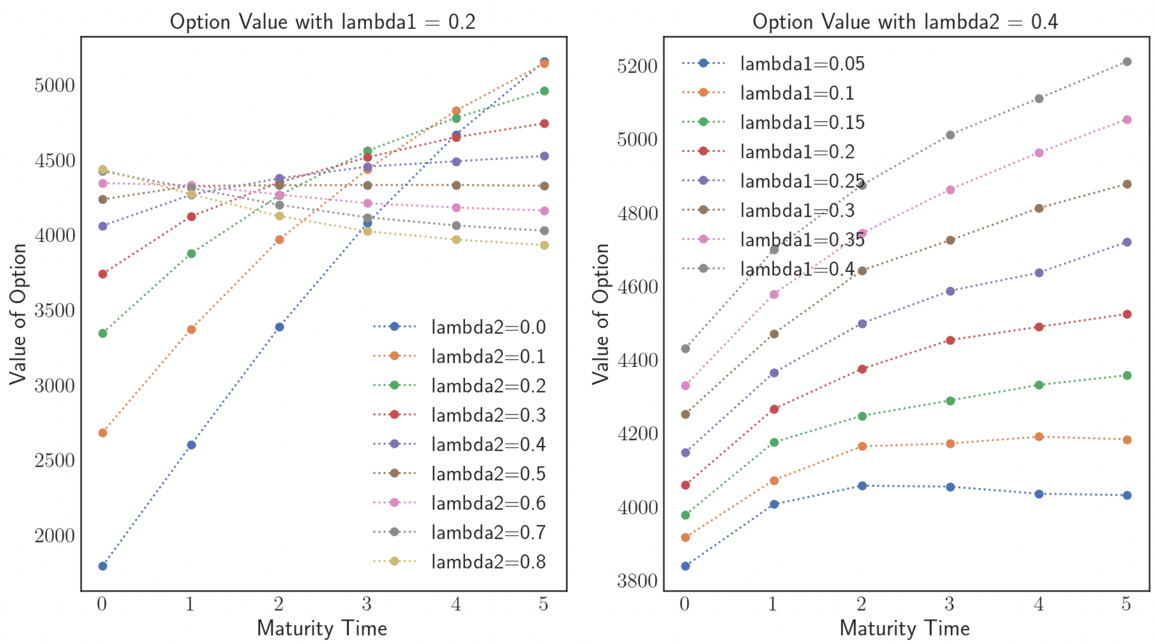
with λ_1=.2, λ_2=0.4 and T=5

The default option D: 4374.32

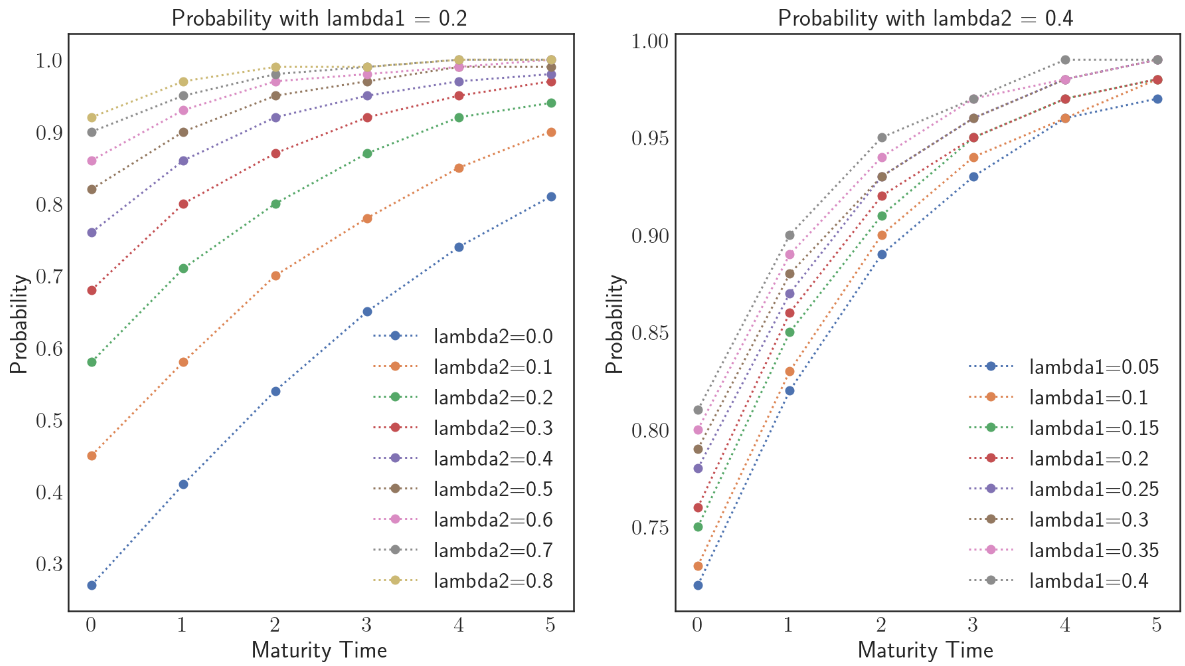
The default probability Prob: 0.92

The expected exercise time Et: 1.18

(a) Value of Default Option



(b) Default Probability



(c) Expected Exercise Time