Problem 4

a)   Given Bear spread, the initial investment is,

   Initial investment = \$ Buy − Sell = 4,75 − 2,15 = 2,60

   The payoff,

   Payoff = $\max(K - S_t, 0)$

   Given stock = \$23,

   Long put strik(29) => $\max(29 - 23, 0) = 6$

   Short put (25 => $-\max(25 - 23) = -2$

   Total = 6 − 2 = 4

b)   Stock Price = 28

   Long put (strike (29) = $\max(29 - 28, 1) = 1$

   Short put (strike (25) = $-(25 - 28, 0) = 0$

   Total = 1 − 0 = 1

c) Stock price (33

   ˗ Long put (strike 29) => $\max(29 - 33, 0) = 0$

   ˗ Short put (strike 25) => $-\max(25 - 33, 0) = 0$

   Total = 0 − 0 = 0