

Question #1 of 4

Question ID: 1469227

We can use the risk-free rate to value an option with a one-period binomial model because:

- A)** combining options with the underlying asset in a specific ratio will produce a risk-free future payment.
 - B)** combining put and call options in specific ratio can produce a risk-free future payment.
 - C)** options investors are risk-neutral, on average.
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Question #2 of 4

Question ID: 1469228

One method of valuing a call option with a one-period binomial model involves:

- A)** finding a combination of the call option and the underlying that will have the same value regardless of the price of the underlying at expiration.
 - B)** discounting the average call value at expiration by the risk-free rate.
 - C)** using the probabilities of an up-move and a down-move to get the expected value of the payment at expiration.
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Question #3 of 4

Question ID: 1469226

In order to value an option with a one-period binomial model, three things an analyst would need to know are:

- A)** the probability of an up-move, the option exercise price, and the current asset price.
 - B)** the risk-free rate, the volatility of the price of the underlying, and the current asset price.
 - C)** the risk-adjusted discount rate, the volatility of the price of the underlying asset, and option exercise price.
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Question #4 of 4

Question ID: 1469229

Consider a stock that will have a value of either 22 or 14 one year from now. If the risk-free rate is 5%, what is the ratio of shares to short call options with an exercise price of 18 for a portfolio that will have the same value at expiration regardless of the stock price at the end of the year?

- A)** 0.50.
- B)** 0.48.
- C)** 0.53.