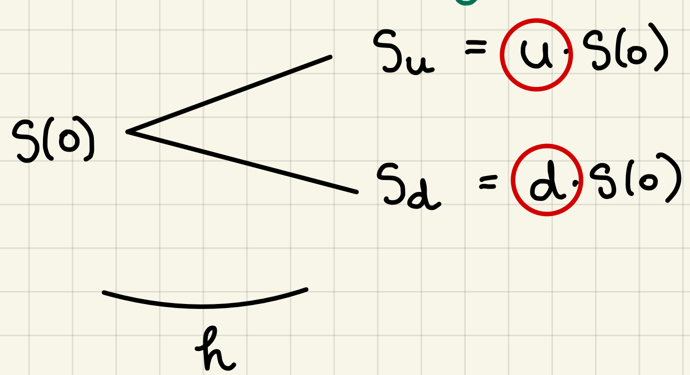
M339 W: January 20th, 2021.

Important Prerequisite Material

- Basics of options from Intro to Fin Math
  - → calls
  - → puts
  - .... bull/bear spreads; straddles; strangles
- Binomial Option Pricing
- Arbitrage Portfolio
- Normal Dist'n
- Covariance Formula

$$Var[X+Y] = Var[X] + Var[Y] + 2Cov[X,Y]$$

Binomial Asset Pricing Model



- r... continuously compounded, risk-free interest rate

  accumulation f'tion: $a(t) = e^{r \cdot t}$

- δ... dividend yield

  Per share owned, the shareholder is entitled to $\delta \cdot S(t)\,dt$ in dividend payments over the time period $(t, t+dt)$.