UNIVERSITY OF TEXAS AT AUSTIN

Lecture 4

Put-call parity with non-dividend-paying underlying assets

An example

4.1. **Sample MFE Problems: Problem #1.** Consider a European call option and a European put option on a non-dividend-paying stock. Assume:

(1) The current price of the stock is \$60.
(2) The call option currently sells for \$0.15 more than the put option.
(3) Both options expire in 4 years.
(4) Both options have a strike price of \$70.

Calculate the continuously compounded risk-free interest rate r.