

Notation. Assumptions. Conventions.

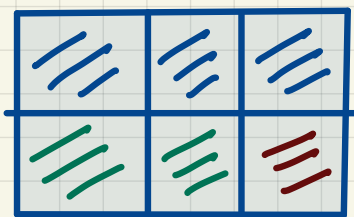
- Assumptions.
- There is a single prevailing interest rate :
 - the same for borrowing and lending
 - the same for everyone
 - deterministic and constant
 - There is an infinite line of credit
 - Money is continuously valued.

$$100 e^{0.02 \cdot 2} = 100 e^{0.04}$$

Note: Borrowing & Lending via savings accounts, loans, bond are all **RISKLESS INVESTMENTS**

Riskless Asset: governed by a fixed, deterministic
ccr fir usually denoted by r

Risky Asset:



We assume that shares of stock are **continuously valued**,
e.g., $\frac{11}{13}$ share
or $e^{-0.04}$ share

