DS-605: Project 2
Assigned April 26, 2018
Due May 10, 2018

We discussed in class the binomial tree method for pricing call options on a security, S, with strike price K, and expiration T. In this project you will use a binomial tree to price both a European and American call option.

The call option to be priced is on a security whose current price is \$144.00 with a strike price equal to \$150.00 and a time to expiration of three months. You may assume that the current annual risk free rate $r = .02$ and that $\sigma^2 = .1$.

1. Code the binomial tree method in Octave to price the call option as a European option. Please write your code so that the number of binomial tree steps, N, is a variable in your code.

2. Provide an appropriately modified version of you code from 1. to price the call option as an American option.