Question 1

Consider a call option on Pepsi, with maturity 1 year and strike K=90. The underlying price of Pepsi is 100. The option is

1) In-the-money.
2) At-the-money.
3) Out-of-the-money.

Correction: 1

Question 2

You believe the market may crash in the next 6 months. To hedge yourself, you buy

1) an in-the-money call option

2) an out-of-the-money call option

3) an in-the-money put option

4) an out-of-the-money put option

Correction: 4

Question 3

In the binomial model, the price of an option depends on the observed probabilities to go to the up and down states

1) true
2) false

Correction: false

Question 4

In the binomial model, the price of an option depends on the risk-free rate

1) true
2) false

Correction: true