

# **FIN 513: Homework #4**

Due on Tuesday, February 20, 2018

**Wanbae Park**

**Problem 1****Problem 2****Problem 3**

**False.** It is not necessary to assume the options are not marked to market. The only assumption to derive options prices under binomial model is that underlying asset and riskless bond are tradable(both long and short) at each steps. Regardless of marking-to-market, it is possible to price option only if we can replicate payoff of options by trading underlying asset and riskless bond at each node.

**Problem 4****Problem 5**