Module 3 – Handout 1

Effect of variables on option pricing

Variable	European call	European put	American call	American put
Current stock price				
Strike price				
Time to expiration				
Volatility				
Risk-free rate				
Dividends				

Module 3 – Handout 2

Simple Interest	$FV = PV(1+rt)$	FV – future value PV – present value r – annual interest rate t – time in years
Compound Interest	$FV = PV(1+i)^n$	FV – future value PV – present value i – interest rate per period n – number of compounding periods
Continuous Compound Interest	$FV = PVe^{rt}$	FV – future value PV – present value r – continuous interest rate t – time in years

Upper Bound and Lower Bound

	C_E	C_A	P_E	P_A
Lower Bound				
Upper Bound				