

Quiz 22 for Nov 14

Started: Nov 11 at 3:17pm

Quiz Instructions

Complete this quiz by 11:00 a.m. on Monday November 14.



Question 1

1 pts

A European put option has a maturity of 1 year and an exercise price of \$50. The discount function for a one year maturity is $P(0,1) = 0.96$. This option is written on a stock that has a current market price of \$45 and that will pay dividends over the next year which have a present value of $D = \$1$. What is the lower bound for this put option's price?

State your answer to the nearest 1 cent, e.g. 7.32 .



Question 2

1 pts

A European call option has a maturity of 1 year, an exercise price of \$40, and is written on a non-dividend-paying stock whose current market price is \$35. The one-year risk-free return is $R_f = 1.04$. If this call option currently sells for \$5, what is the price of a European put option written on the same stock and having the same exercise price and time until maturity? State your answer to the nearest 1/100th of a dollar, e.g., 5.34.

8.43



Question 3

1 pts

If $u = 1.2$, $d = 0.9$, and $R_f = 1.02$, the risk-neutral probability that the stock rises is

(State your answer to 2 decimal places. e.g, 0.54)

0.4



Question 4

1 pts

If $u = 1.1$, $d = 0.9$, $R_f = 1$, $X = 50$, and $S = 30$, the minimum number of periods for which the stock's price needs to increase in order for a call option with $n = 20$ periods to maturity to be in the money is $a =$

(State your answer as an integer.)

14



Question 5

1 pts

Ask one or more questions or make one or more comments on the material covered in this class.

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Why did we assume $d < R_f < u$?

p



9 words

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Quiz saved at 5:53pm

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