Assignment - 2. IDFM

Q1)

⟹ C) Out of the Money

- Since the underlying price > strike price.

Q2)

⟹ B) 4

Q3)

⟹ D) A Call Writer.

Q4)

⟹ A) Protective put.

Q5)

⟹ B) 5.98.

- Lower bound = Stock Price − Strike price $\cdot e^{-rt}$.

$= 30 - (25 \cdot e^{-4\%}) = \underline{5.98}$

Q6)

⟹ C) 480

- $66.59 - 18.64 = 500 - K\exp(-0.06)$

$\Rightarrow K = (66.59 - 500 - 18.64) / \exp(-0.06)$

$K = -(-452.05/e^{-0.06}) = \underline{480}$

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Q7.)

⟹ D.) Buy one share of the stock, buy a 90 call, buy a 110 put, sell two 100 puts.

Q8.)

⟹ B) Short the call and long the stock.

- covered call requires shorting the call option along with simultaneous ownership in the stock (i.e. the underlying asset)

Q9.)

⟹ D.) The call option is in the money, but the put option is out-of-the money.

Q10)

⟹ C.) Butterfly spread.

Q11.)

⟹ B.) Strangle

Q12.)

⟹ D.) Loss of 25,000

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Q13:)

⇒ B:) 6.

Profit of 6

Q14:)

⇒ C:) Diversifying potential.

Q15:)

⇒ C:) It is an investment opportunity available to the public and requires hefty investment.

Q16:)

⇒ A:) Construction of Infrastructure assets.

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