

## EXAM FM QUESTIONS OF THE WEEK

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### Week of April 2/07

At time 0, the share price of ABC stock was \$95.25. At that time, a call option on a share of ABC stock with a strike price of \$120 expiring one year later had a premium of \$1.10. Risk free interest rate is 5% annual effective. Determine the payoff and the profit on the written call option on the expiry date for each of the following stock values at time 1: 90 , 110 , 130 .

**The solution can be found below.**

## Week of April 2/07 - Solution

Profit = Payoff + accumulated premium = Payoff + 41.60 .

Asset price:	90	110	130
Payoff:	0	0	- 10
Profit:	1.16	1.16	- 8.84