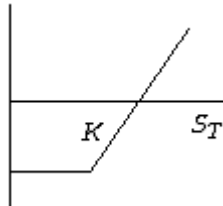


EXAM FM QUESTIONS OF THE WEEK

S. Broverman, 2007

Week of May 14/07

You are given the following payoff diagram.



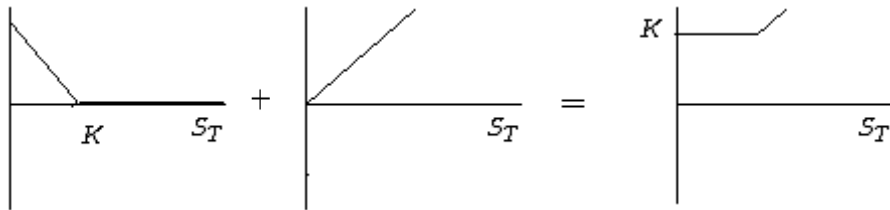
Which of the following combinations results in this payoff at time T ?

- A) Long stock, short call
- B) Long stock, long put
- C) Long stock short call, short bond
- D) Long stock, long put, short bond
- E) Long stock, long call

The solution can be found below.

Week of May 14/07 - Solution

Long asset combined with long put has payoff diagram



If we add a short bond, the payoff diagram is shifted down. Answer: D