UNIVERSITY OF TEXAS AT AUSTIN

Quiz #2

Forward contracts. European calls.

Provide your **final answer only** to the following problem(s):

Problem 2.1. (5 points) Which of the following constitutes a one-year, \$100-strike **covered call**?

(a) Write a one-year, \$100-strike call and short the underlying asset.
(b) Write a one-year, \$100-strike call and buy the underlying asset.
(c) Buy a one-year, \$100-strike call and short the underlying asset.
(d) Buy a one-year, \$100-strike call and buy the underlying asset.
(e) None of the above.

Problem 2.2. (5 points) A stock's price today is \$1000 and the annual effective interest rate is given to be 5%. You write a one-year, \$1,050-strike call option for a premium of \$10 while you simulataneously buy the stock. What is your **profit** if the stock's spot price in one year equals \$1,200?

(a) \$150.00
(b) \$139.90
(c) \$10.50
(d) - \$39.00
(e) None of the above.

Problem 2.3. (5 points) *Source: Sample MFE (Intro) Problem #56.*
Determine which of the following positions has the same cash flows as a short stock position:

(a) Long forward and long zero-coupon bond
(b) Long forward and short forward
(c) Long forward and short zero-coupon bond
(d) Long zero-coupon bond and short forward
(e) Short forward and short zero-coupon bond