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 simultaneously 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

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