Name_____

1) Assume s = \$56.00, σ = .45, r = .05, div = 0.0, on a \$55 strike call and 45 days until expiration. Given delta = .6253, gamma = .0735, and theta = -0.0253, what is the approximate change in call price over 1 day, all else being the same?

A) \$0.02 B) \$0.01 C) \$0.03 D) \$0.00

Answer: D

2) What actions are required to both delta-hedge and gamma-hedge a written option position?

Answer: We must long delta shares as well as a different option so as to offset the short call gamma (convexity).

3) A stock is selling for \$32.70. The strike price on a call, maturing in 6 months, is \$35. The possible stock prices at the end of 6 months are \$39.50 and \$28.40. If interest rates are 6.0%, what is the option price?

A) \$2.80 B) \$4.20 C) \$2.08 D) \$1.90

Answer: C