Chapter 14
BKM Essentials 6e
Solutions

14-49

$$Premium = 100\left(2\frac{1}{2}\right) = 250.00$$

14-50 *Profit* = 100(120 – 10) = 11,000.00.

14-51 *Loss* = 100(4.25 + 5.00) = 925.00 if stock price is $50 at expiration.

14-53 *Profit* = 100 [(79 – 75)] – 8.50 + 6.00] = $150.

14-56 Per share loss to put writer = (35 – 0) + 2 = 33.00 if stock price is $0 at expiration.

Per share gain to call writer = 3.50 if stock price is below $40 at expiration.

14-55 Purchase a put and a call.
$3 + $5 = $8

14-59

You will have to cover the cost of both the put and the call, the cost of a straddle.
Cost of a straddle = Cost of a put + Cost of a call = $3 + $5 = $8
The stock would have to go up at least $8 to cover the cost of the straddle.

14-60

You will have to cover the cost of both the put and the call, the cost of a straddle.
Cost of a straddle = Cost of a put + Cost of a call = $3 + $5 = $8
The stock would have to go down at least $8 to cover the cost of the straddle.

14-62

Sell a straddle = sell a put + sell a call
Premium income for selling a straddle = premium for a put + premium for a call
= $3 +$2 = $5

14-63

If the stock ends up at $40, both options will expire worthless. Your profit will be equal to the two premiums for selling the put and selling the call.
Sell a straddle = sell a put + sell a call
Premium for a straddle = premium for a put + premium for a call
= $3 + $2 = $5

14-70 Break even = 35.00 +2.50 = 37.50

14-71 Break even = 25 - .87 = 24.13