**HOMEWORK #3**

**Question #1**:

XYZ’s stock currently sells for $100. Over the 3 months, the stock price will either increase by 10% or decrease by 10%. The 3 month T-Bill rate is 5.0% (annual rate). Suppose that the 3 month option price of XYZ is at 105. What will be the desired call option premium be traded?

**Question #2:**

Using the example above, calculate the captured profit for your cover call for any stock price within the estimated range (Su & Sd) at expiration if the call option premium is trading at a mispriced price of $3.00 – assuming you borrow the difference at 5.0% for 3 months to purchase the stock.