

Example C.4

John writes a \$100 strike Price put option with 6 months to expiration for a Premium of \$5.12. The risk-free rate is 4 % convertible semiannually. Calculate John's profit if the price of the underlying asset is \$60 in 6 months.

Solution

$$\underline{\text{John's Profit} = - \max\{\$100 - \$60, 0\} + 1.02 * \$5,12}$$