ECO358 - Problem Set 3

Clearly state the formula/procedure/approach that you have used to obtain your results; the approach is more important than the result. If an explanation is required, write **brief** answers.

1 Options: Basics [12 points]

1. A one-month European put option on a non-dividend-paying stock is currently selling for \$2.50. The stock price is \$47, the strike price is \$50, and the risk-free interest rate is 6% per annum. What opportunities are there for an arbitrageur? **[3 points]**