

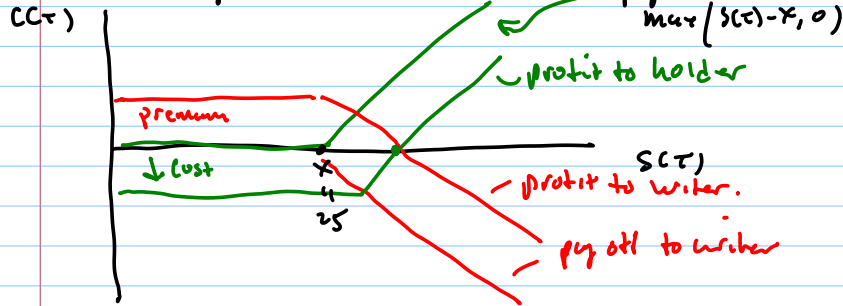
Econ 462 Lec 20

Note Title

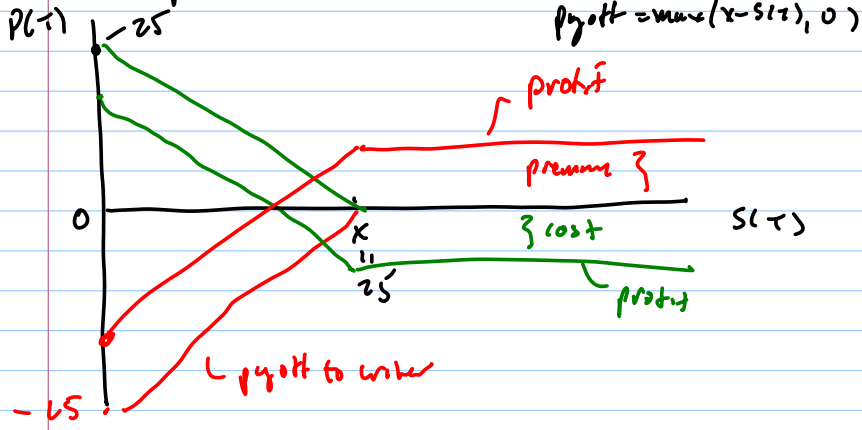
8/18/2010

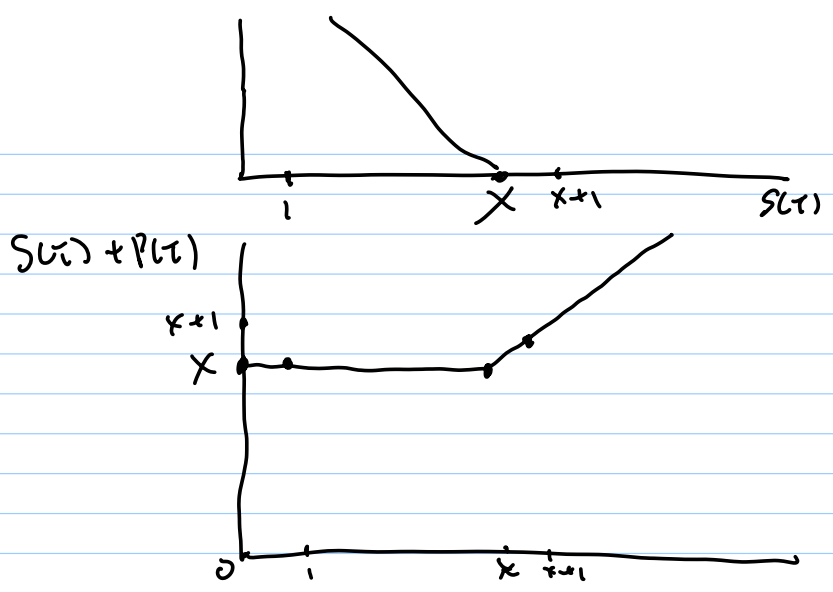
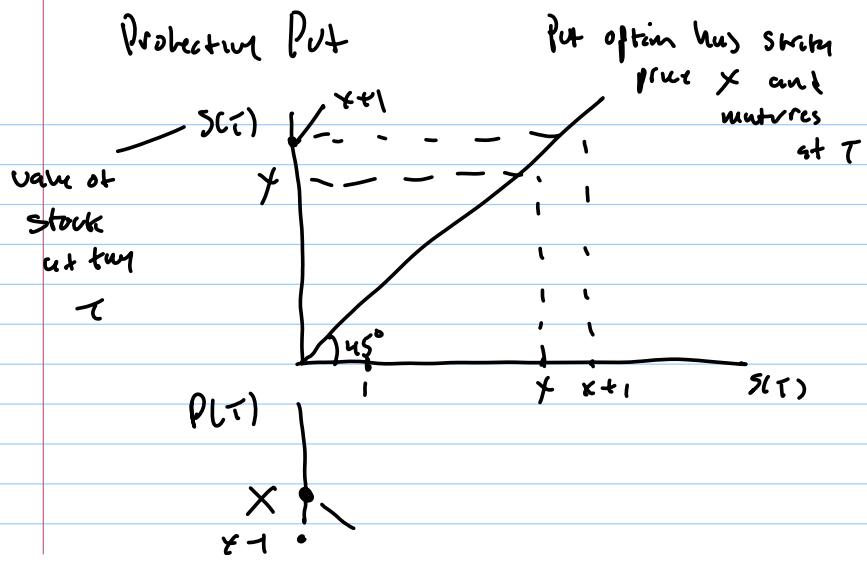
Call option with strike price $K=25$

At maturity date T



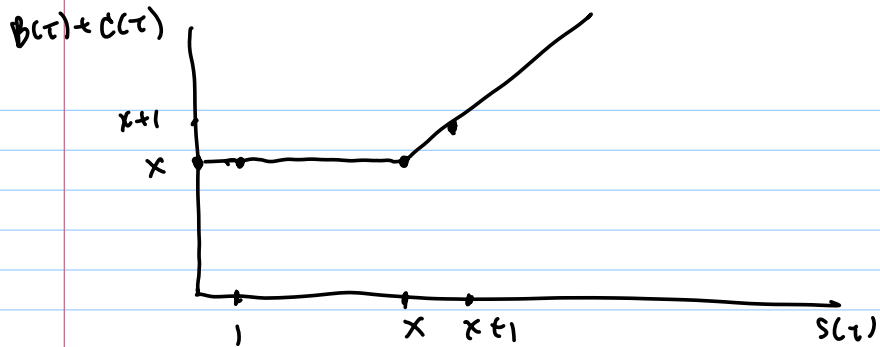
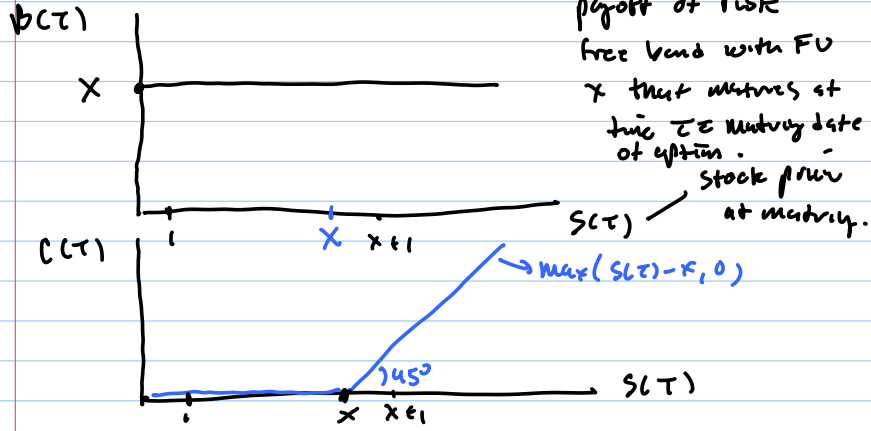
Put options with strike price $K=25$

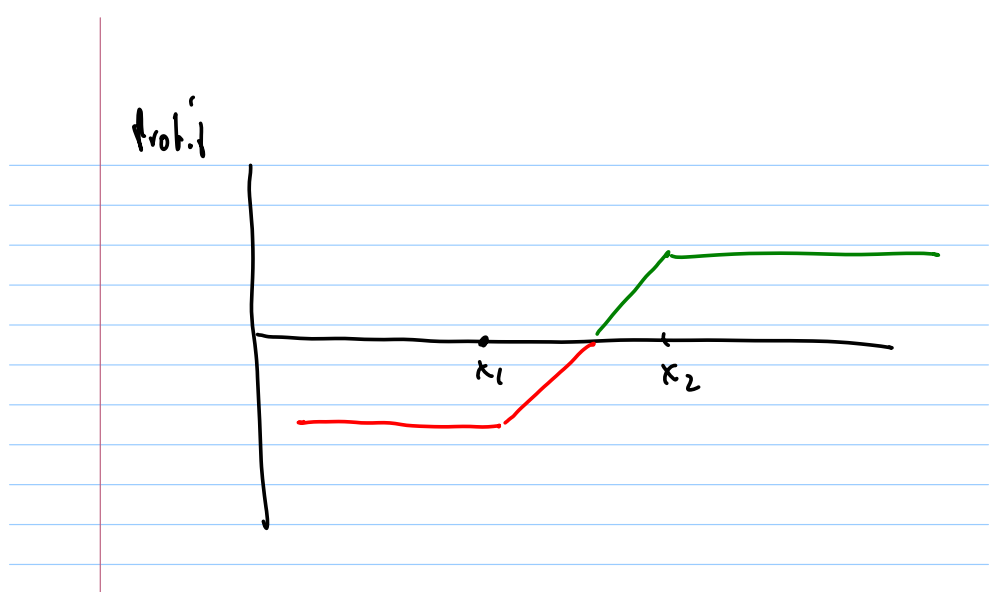
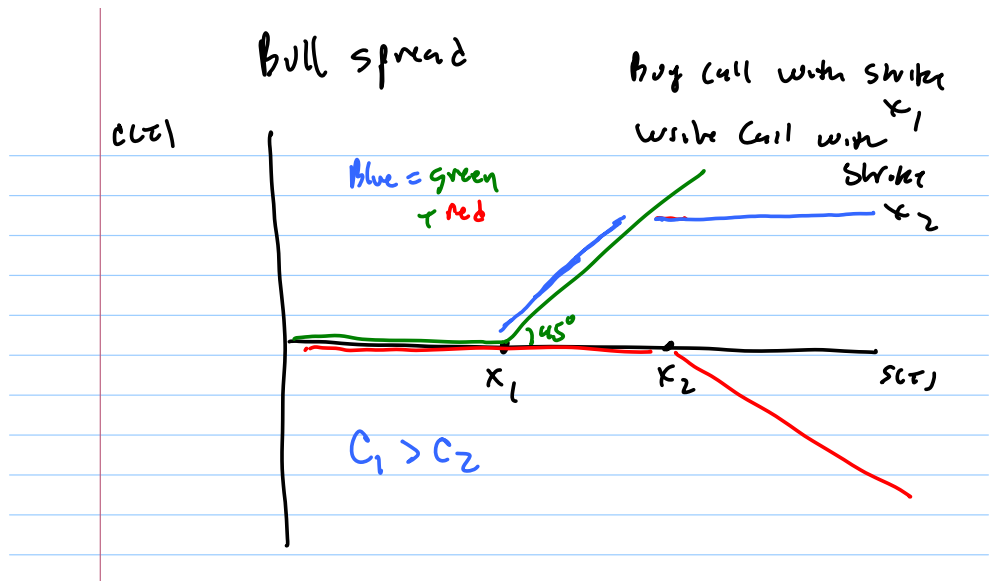


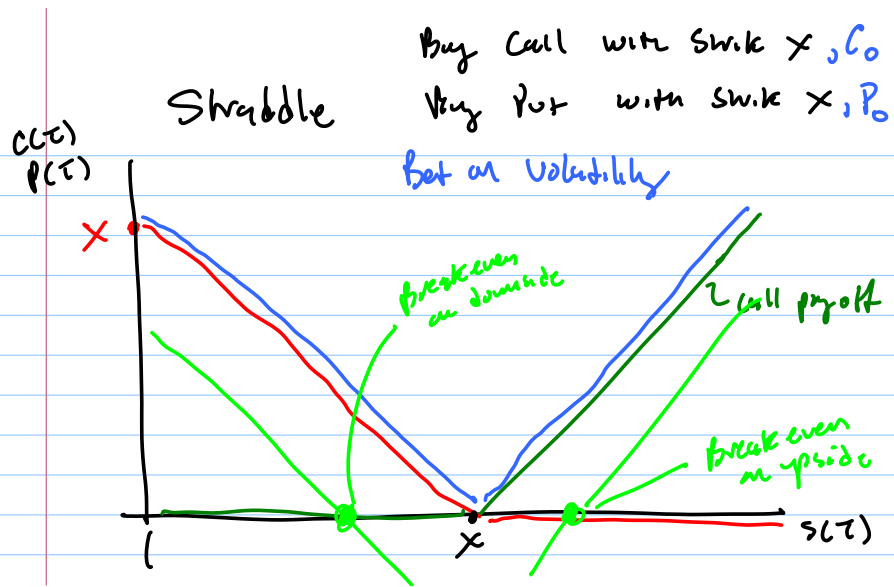


$S(t)$

Portfolio Insurance Part II

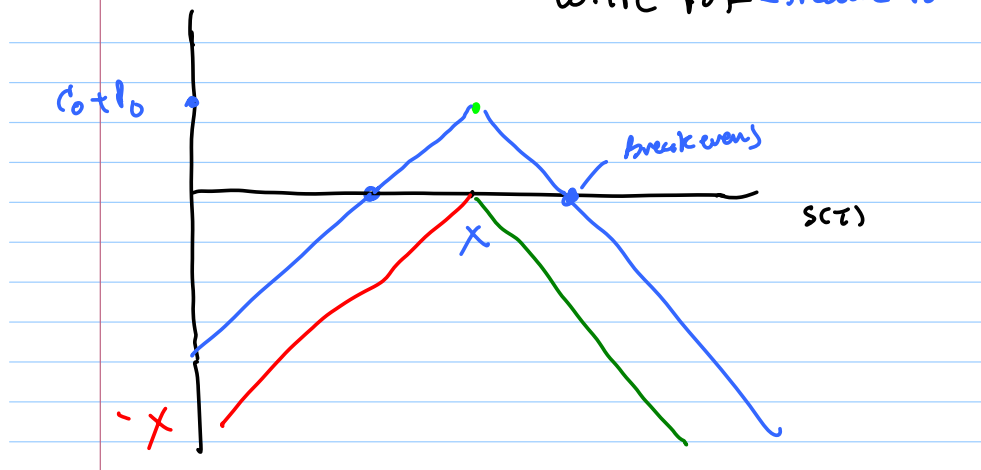






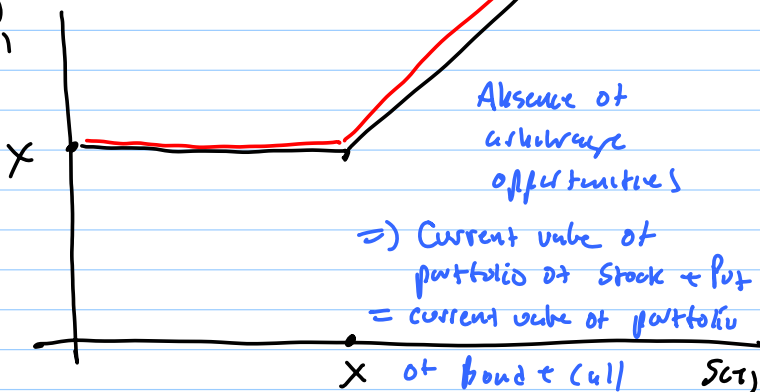
$-(P_0 + C_0)$

Reverse Straddle — write call → receive C_0
 write put → receive P_0



Stock + Put

$S_C(t) + P_C(t)$
 $P_C(t) + C_C(t)$



$$\text{Put} + \text{Stock} = \text{Call} + \text{PV}(K)$$

$$\Rightarrow \text{Put} = \text{Call} - \text{Stock} + \text{PV}(K)$$

$$\Rightarrow \text{Stock} = \text{Call} - \text{Put} + \text{PV}(K)$$

$$\Rightarrow \text{Call} = \text{Put} + \text{Stock} - \text{PV}(K)$$

$$\Rightarrow \text{PV}(K) = \text{Put} + \text{Stock} - \text{Call}$$