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

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