

1. You think that Big 'n' Oily Malted Balls candy (symbol BOMB) is going to be the next big thing. The stock is currently selling for \$29. You purchase a call options contract to buy 100 shares at \$30. The price of the option was \$2. Answer the following questions:
  - i) Is your option:                      a) "in-the-money"                      b) "at-the-money"                      c) "out-of-the-money"
  - ii) What is the break-even point for your option?
  - iii) Ignoring commissions, if the stock price rose to \$36, what would be your profit?
  
2. You are sure that the price of Opie's Obedient Pet Service (symbol OOPS) is far too high. You think investors have bid up the price to an outrageous amount. About a month ago, you purchased a put options contract to sell 100 shares at \$90. The price of the option was \$3. The stock is currently selling for \$88. Answer the following questions:
  - i) Is your option:                      a) "in-the-money"                      b) "at-the-money"                      c) "out-of-the-money"
  - ii) What is the break-even point for your option?
  - iii) Ignoring commissions, if the stock price fell to \$82, what would be your profit?
  
3. Your broker calls you and says, "Ya' know, straddles are a great way for you to generate commissions, uh, I mean make money. This stock, Young's Underwater Crab Hatchery (symbol YUCH), is extremely volatile. It is currently selling for \$33. I suggest you purchase a call option to buy at \$35 and a put option to sell at \$35. The price of the call option is \$2 and the price of the put option is \$5." Even though you are not quite sure whether or not this is a good idea, you go ahead with the offer from your broker. Answer the following questions:
  - i) What is the total price of your options (excluding commissions)?
  - ii) How far does the stock price have to swing from \$35 in either direction before your straddle is "in-the-money?" (i.e. What is the break-even point?)
  
4. You purchased 100 shares of Pretzel's Unlimited (symbol PU) some time ago when the price was \$10. The current price is around \$72. You are thinking of selling but you aren't sure. Instead, you sell (write) a single call options contract at the strike price of \$75. The option price was \$1. Answer the following questions:
  - i) How much money did you receive when you sold (wrote) the call options contract?
  - ii) If the option is exercised, what price will you receive for your 100 shares of PU stock?
  - iii) What is the total amount you will receive? What are the disadvantages of this strategy?
  
5. Fire Abatement Technology (symbol FAT) is currently selling for \$15. You are thinking of purchasing 100 shares but you are not quite sure. Instead, you sell (write) a single put options contract with a strike price of \$15. The put option sells for \$2. Answer the following questions:
  - i) How much money did you receive when you sold (wrote) the put options contract?
  - ii) If the option is exercised, what price will you pay for the 100 shares of FAT stock?
  - iii) What is the effective price per share that you paid for FAT (assuming the option is exercised)?
  - iii) Is this an effective strategy? What are the advantages and disadvantages?