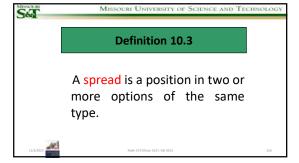


MISSOURI UNIVERSITY OF SCIENCE AND TECHNOLOGY SET Example 10.2 Recall: The relevant profit The profits for the strategies in Definition 10.1 are • S_T-S₀e^{rT} LONG STOCK (for European options): • (S_T-K)+-ce^{rT} LONG CALL • perT-(K-S_T)+ covered call • (K-S_T)*-pe^{rT} LONG PUT • $(K-S_T)^+$ -pe^{rT} REVERSE CC • S₀e^{rT}-S_T SHORT STOCK • cerT-(S_T-K)+ SHORT CALL • $(S_T-K)^+-ce^{rT}$ protective put • perT-(K-S_T)+ SHORT PUT e^{-c} ce^{rT} $-(S_T - K)^+$ REVERSE PP

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153 154





Definition 10.5

A combination is a position in both calls and puts on the same stock.

