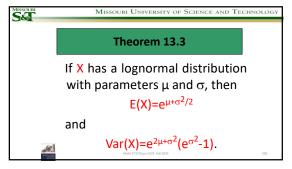
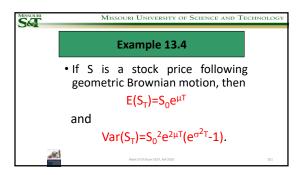


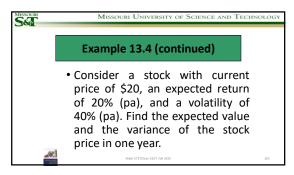
197

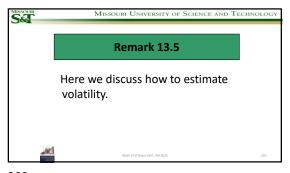
MISSOURI MISSOURI UNIVERSITY OF SCIENCE AND TECHNOLOGY Example 13.2 (continued) Consider a stock with an initial price of \$40, an expected return of 16% (pa), and a volatility of 20% (pa). Find a 95%-confidence interval for  $S_{1/2}$ .

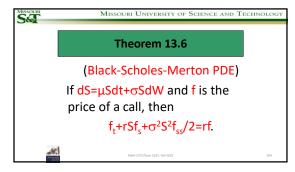




199 200 201







202 203 204

Remark 13.7

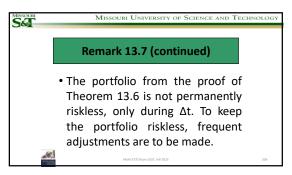
• (BSM) has many solutions, but we are looking for a solution that satisfies the boundary condition

f=(S-K)\* when t=T

for a European call, or

f=(K-S)\* when t=T

for a European put.

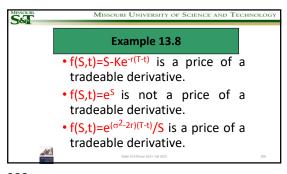


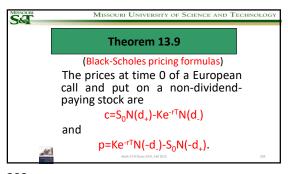
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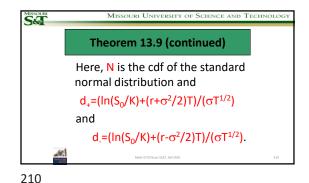
Remark 13.7 (continued)

• Any f that satisfies (BSM) is called a price of a tradeable derivative.

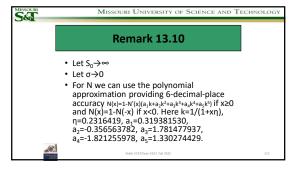
205 206 207

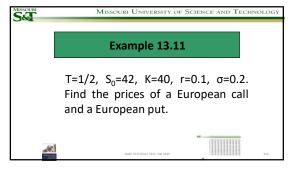


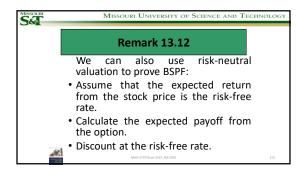




208 209







211 212 213

