Chapter 19 Problems

19.1)

a: the Teledyne calls that are in the money, given a closing stock price of $162, are the calls with the exercise prices of 140, 150, and 160.

b: the Teledyne puts in the money are the puts with exercise prices of 170 and 180.

c: although the stock closed at $162, investors are willing to pay 1/4 for the 180 call because they feel there is some probability that the price of the stock will rise to the 180 area. They are willing to pay only 1 for th 150 put because they feel there is less change of the stock declining to the 150 area.

19-2)

a: using the Teledyne data, the intrinsic value of the April 140 call is: 160 -140 = 22

The intrinsic value of the October 170 call is $0.

b: The intrinsic value of the April 140 put is $0 since the strike price is less than the stock price

The intrinsic value of the October 170 put is: 170 - 162 = 8

c: The stock price is on the higher end of the range of exercise prices available for Teledyne options. Therefore, the intrinsic values for calls are greater.

19-3)

a: The cost of 10 October 150 call contracts in total dollars is: a price of25 = $2500 per contract; therefore, 10 contracts would involve a total dollar amount of $25,000. From the text, the brokerage cost for 10 option contracts is $65. Therefore, the total cost is $25,065.

b: The cost of 20 October 160 put contracts in total dollars is: a rice of 9 - $900 per contract; therefore, 20 contracts would involve a total dollar amount of $18,000. With brokerage costs of $115, the total would be $18,115.

c: If Teledyne closed at $164 the following day, the in-the-money call options would increase in value, and the out-of-money calls probably would also. As the stock price rises, the prices of the put contracts should decline.

d: If the price of this option rises $1, from 25 to 26, the gross profit per contract would be $100. Therefore, for 10 contracts the one-day profit would be $1,000, minus $130 in brokerage fees.
e: If the October 160 put goes to 7-1/2, each contract would show a loss of 9 - 7/1/2, or 1-1/2 ($150). Therefore, the one-day loss on 20 contracts would be $150 x 20 + $3000, plus $230 in brokerage fees.

f: These contracts, like any option contracts, can expire worthless, resulting in a total loss of investment plus brokerage costs. You can lose the full purchase price plus at least one-way commissions.