

**FIN 533 Homework**  
**Due Thursday, November 12, 2009**

Suppose you think that Wal-Mart stock is going to appreciate substantially in value in the next five months. Say the stock's current price is \$55 and the call option expiring in 5 months has an exercise price of \$55 and is selling at a price of \$5. With \$5,500 to invest, you are considering three alternatives:

- a. Invest all \$5,500 in stock, buying 100 shares
- b. Invest all \$5,500 in 1,100 options (11 contracts)
- c. Buy 100 options (one contract) for \$500 and invest the remaining \$5,000 in a money market fund paying 1% in interest over 5 months (2.4% per year)

What is your rate of return for each alternative if the stock price is \$40 five months from now?

What if the price is \$65 five months from now?