

**FIN 533 Homework****Due Tuesday, November 17, 2009**

“A straddle is a combination of buying both a call and a put on the same asset, each with the same exercise price and expiration date. The purpose is to profit from expected volatility.”

Plot the profit/loss diagram to a straddle position with an exercise (strike) price of \$130. You may want to do this by following steps a, b and c.

<b>Call Options Strike</b>	<b>Price (premium)</b>	<b>Put Options Strike</b>	<b>Price (premium)</b>
110	22.80	110	12.60
120	16.80	120	17.20
130	13.60	130	23.60
140	10.30	140	30.50

- Plot the profit/loss diagram (at option expiration) for a long call option with a strike price of \$130.
- Plot the profit/loss diagram (at option expiration) for a long put option with a strike price of \$130.
- Consolidate the long call and the long put into one diagram.