

- 1) 16,000    2) 32,000    3) -55,500    4) -35000    5) none of the above

II. Short-essay Question:

1. (10 points) Assuming the risk-free interest rate is 4% per sub period, the current stock price is \$100 and it will appreciate or depreciate by 10% in each sub period.
- (a) What should be the theoretic value of the European-style at the money call option expiring in two sub periods?
- (b) Referring to 1(a) above, what should be the value of a lookback call option? [hint: the terminal payoff of lookback option =  $\text{Max}(0, \text{Max}(\text{stock price}) - \text{exercise price})$ ]
2. (15 points)
- (a) Define "cross hedging" and deliberate your conception by demonstrating an example.
- (b) Define a bond's Yield to maturity and explain its economic interpretation?
- (c) Define American Deposit Receipt (ADR). Please give two examples of Taiwanese corporations that issuing ADR.