

Derivatives Lab

Session 11

October 25, 2011

1. Modify your binomial tree algorithm to price an American put option (the holder may exercise the option at any time before expiration). Is the price of an American put higher or lower than that of a European put with otherwise identical parameters?
2. Look up stock option quotes for European call options on the stock of a major corporation. Plot the implied volatility vs. the strike price, while the time to maturity is fixed. (The applicable interest rate is the spot rate for zero coupon bonds of the same maturity.)