

Lecture 14: Options Markets

Economics 252, Spring 2011

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OPTION/STRIKE	EXP	-CALL- VOL LAST	-PUT- VOL LAST
ACE Ltd 40	Nov	...	2500 2.80
AOL TW 20	May	76 2.55	2129 0.85
21.85 22.50	Apr	1493 0.50	619 1.20
21.85 22.50	Jul	963 1.95	14110 2.55
AmOnline 25	Apr	983 0.05	12977 3.30
21.85 25	May	1196 0.45	220 3.60
21.85 25	Jul	1339 1	160 4.20
21.85 25	Oct	1706 1.65	14105 4.30
21.85 27.50	Apr	177 0.05	10097 5.80
21.85 27.50	Oct	1253 1.15	153 6.40
AT&T Cda 22.50	Oct	...	2740 1.90
AT&T 15	Jul	593 1.10	5500 1.10
Abbt L 50	Apr	1231 2.95	605 0.30

Black-Scholes Formula

$$C = SN(d_1) - e^{-rT} EN(d_2)$$

where

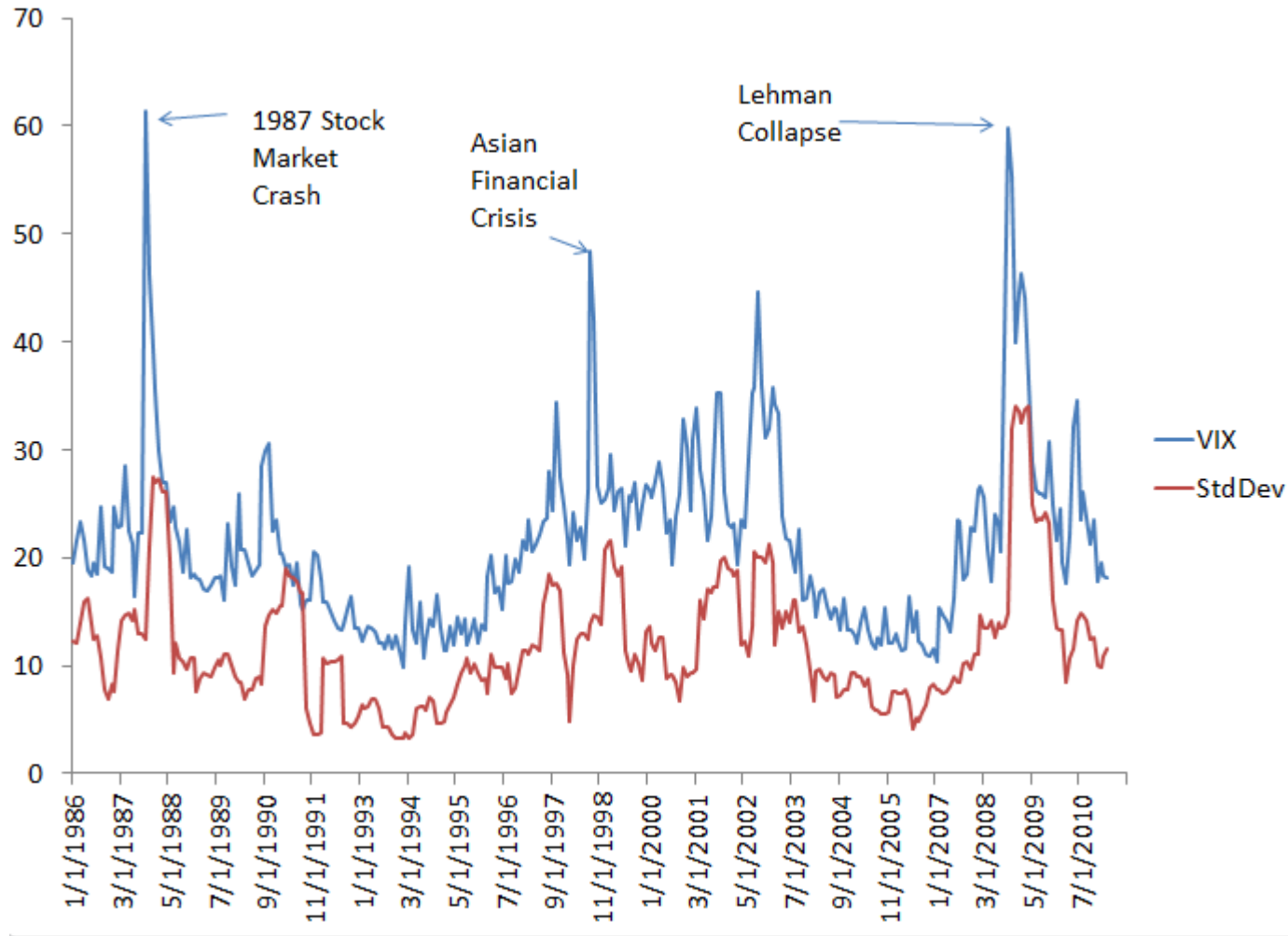
$$d_1 = \frac{\ln\left(\frac{S}{E}\right) + rT + \sigma^2 T / 2}{\sigma \sqrt{T}}$$

$$d_2 = \frac{\ln\left(\frac{S}{E}\right) + rT - \sigma^2 T / 2}{\sigma \sqrt{T}}$$

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Implied and Actual Volatility

Monthly Jan 1986-Mar 2011



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Actual S&P 500 Volatility

Monthly Jan 1872- March 2011

