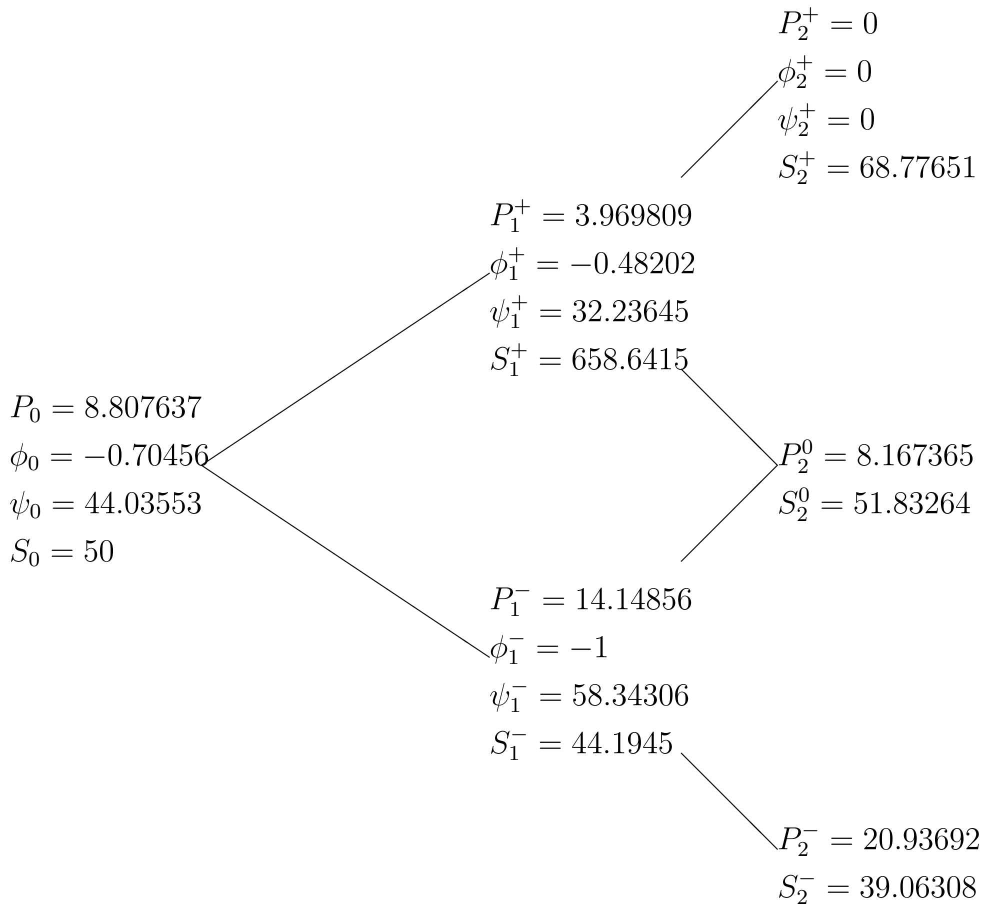
QUESTION
Calculate the initial premium and the trading strategy for the asset/bond replicating portfolio for a European put option on the following data:

Strike \$60, Maturity 1 year, two intervals;
Continuously compounded annual risk-free rate 5.60%;
Volatility 20%; current price \$50

What do you notice about the way the premium behaves with strike price for a put option?
ANSWER
$k = 60$ (different from question 6), $r = 0.056$, $\sigma = 0.2$, $s_0 = 50$, $U = 1.17283$, $D = 0.88389$
Europut Summary:



Put premium P_0 increases as k increases (opposite of call).