1. You expect the stock market to rise over the next 3-months. What are the advantages and disadvantages of buying a call bull spread?

2. What is a “protective put”? Why is it like purchasing insurance on your stock portfolio? (Use $P = 6, S = 164, K = 165$).

3. What is the payoff profile (at expiry) and the breakeven strike price for a portfolio consisting of an equal number of long stocks and long puts? The puts have $K = 164$ and $P = 6$. What are the profits at expiry for $S_T = 163$? The initial stock price is $S_0 = 162$.

4. What is a protective put? The current stock price is $S_0 = 100$ and a put with a strike of $K = 98$ is available at a price of $P = 4$. What is the payoff and profit from the protective put at various values for the stock price, at maturity? Who might use a protective put?

5. What are the differences between a long straddle and a short butterfly spread?

6. A put option with a strike $K_1 = 35$, costs $P_1 = 4$ and a put with a strike of $K_2 = 40$ costs $P_2 = 8$. How can you construct a bull spread using these puts? What are the payoffs and profits from the strategy, for different values of the stock price at maturity?

7. A call with a strike of $K = 50$, costs $C = 2$ and a put also with $K = 50$, costs $P = 4$. What are the payoffs and profits from a short straddle?