Classroom Session 3: One leg or two

Week 3

Homework

Please complete this homework before the next class in this course. We will review the answers and the project at the beginning of the next class.

After reviewing last week's material, which do you prefer?

A. Single-leg strategies

B. Multi-leg strategies

For the remaining questions, refer to these two strategies:

ABC stock price is $94 Time to expiration: 3 months IV30: 59.84

Long Call	Bull Call Spread
1 ABC Call @ 100 $6.70	1 ABC Call @ 100 $6.70
	-1 ABC Call @ 110 $3.70
Debit $6.70	Net Debit $3.00

Which of these is TRUE when comparing the Long Call to the Bull Call Spread listed above?

A. The long call will guarantee the most profit

B. The long call will potentially for the largest loss

C. The long call has a lower breakeven point at expiration

Which of these is TRUE when comparing the Long Call to the Bull Call Spread listed above?

A. The bull call spread will guarantee the most profit

B. The bull call spread has the potential for the largest loss

C. The bull call spread has a lower breakeven point at expiration

When comparing a Long Call to a Bull Call Spread, at the start of the trade, the Delta and Vega will be:

A. Higher on the Long Call
B. Higher on the Bull Call Spread
C. The same for both strategies

When comparing the Long Call to the Bull Call Spread, at the start of the trade, which will be impacted most by the passing of time (Theta)?

A. Long Call
B. Bull Call Spread
C. Both Equally

When opening the Bull Call Spread, at what price might you have the LEAST likely chance of being filled?

A. Net Bid
B. Mid-point
C. Net Ask

With all else remaining equal, at the beginning of the trade, which strategy will gain in value more after a $1 increase in the underlying?

A. Long call
B. Bull call spread