EXAMPLE

Time to Expiration (Days) – t	40 days
Strike (Exercise) Price – X	$60
Stock Price – P	$62
Volatility (Annualized) – σ	32%
Risk-Free Rate -- k_{RF}	4%

Intrinsic Value vs. Speculative Premium

Call Price = $IV_{Call} + SP_{Call}$ Put Price = $IV_{Put} + SP_{PUT}$

$IV_{Call} = Max\{P - X, 0\}$ $IV_{Put} = Max\{X - P, 0\}$

Implied Volatility

You have a call option with 30 days to expiration, a stock price of $53.50, a strike price of $55, and a risk-free rate of 3%. The call is trading for $1.43 and the put for $2.80. What is the market's implied volatility for this stock?