

- 19.** Consider a *forward start option* which, 1 year from today, will give its owner a 1-year European call option with a strike price equal to the stock price at that time.

You are given:

- (i) The European call option is on a stock that pays no dividends.
- (ii) The stock's volatility is 30%.
- (iii) The forward price for delivery of 1 share of the stock 1 year from today is 100.
- (iv) The continuously compounded risk-free interest rate is 8%.

Under the Black-Scholes framework, determine the price today of the forward start option.

- (A) 11.90
- (B) 13.10
- (C) 14.50
- (D) 15.70
- (E) 16.80