The Black-Scholes Model: Pricing Options and Hedging the Sale

Cate Roa '19

Anyone who gets involved in the stock market wants to accomplish one thing: making a profit. However, there is always a risk because we cannot predict with complete accuracy whether the stock price will move favorably over time. Instead, an investor may buy what are called options at a fair price from a dealer. The investor then can wait to act in the market after seeing how the stock price moves, but this will put the dealer at risk. For this presentation, we will learn how to price these options under what is called the Black-Scholes Model, and then we will show how to minimize the dealer's risk by hedging the sale.

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