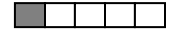


Appendix B.1 & C – Solutions

Solution 1

E Textbook Appendix C, Convex Positions



If a position has positive gamma, then it is convex with respect to the stock's price. If it has negative gamma, then it is not convex.

Call options and put options have positive values for gamma. The gamma of the stock is zero. Therefore, writing a call and writing a put results in a negative gamma, so Edward has established a position that is not convex.

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