 ***Valuation of European Options with Continuous Dividends***

To value an option written on an equity index that pays a continuously compounded dividend yield , simply replace all instances of with :

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***Calculation Example: Valuation of European Index Options with Continuous Dividends***

**Question:** A stock index stands at 4500 points and has a 40% pa standard deviation of returns. The index pays a constant dividend yield of 4% pa and the risk free rate is 10% pa, both with continuous compounding. Value a 3 month European **put** option on the index with a strike of 5000 points.

**Answer:**