DERIVATIVES

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① Option Contracts ② Future Contracts

I Option Contracts ① Basics

☞ If price is expected to rise in future

Alternative 1 Buy share today & sell in future

Alternative 2 Buy call option

☞ If price is expected to fall in future

Alternative 1 short sell share today & Buy in future

Alternative 2 Buy put option.

☞ Types of option on the basis of maturity

American option → Exercised on or before maturity

European option → Exercised only on maturity.

☞ In the money, At the money, Out of the money

	EP < CMP	EP = CMP	EP > CMP
Call	ITM	ATM	OTM
put	OTM	ATM	ITM

☞ Premium Amount can be divided into two parts.

Intrinsic Value = Call → CMP − EP, 0

put → EP − CMP, 0

Time value = premium Amount − Intrinsic value

If option is ATM & OTM, IVo = 0 & full premium amount is Time value or Volatility premium.