Option contract

There are many different types of option contract, whether in exercising ability or difference in values , And two types will be discussing in this presentation. Firstly, the American style of option contract, gives you the flexibility in using it and doing the transaction at any point of time up to the expiration day. Secondly, the European style of option contract, allows the investor to use the option only during the expiration day. And what really important is that all the options gives the investor the option but not the commitment to buy in case of a call or sell in a case of a put.

Finally, the American option will be always worth at least what a European option is worth. There is a difference between a long call and long put and short call and short put. first of all, a long call, an investor who believes that the stock's will rise might buy the right to buy rather than just buying the stock itself. He would have no commitment to buy the stock, only the right to use it until the expiration date. If the price of the stock at the expiration day is over the exercise price by more than the premium price paid he will have profit. And if the price of the stock at the expiration is lower than the exercise price, the call contract will expire of no value, and only will lose the amount of the premium. The investor might buy the option instead of shares, because for the same amount ofmoneyhe can control leverage a much larger number of shares.

While, a long put, an investor who believes that the price of the stock will fall can buy the right to sell the stock at a fixed price. He will be under no commitment to sell the stock, but has the right to use it until the expiration date. If the stock price at expiration is lower the exercise price by more than the premium paid he will have profit. If the stock price at expiration is over

the exercise price, the put contract expire worthless and only lose the premium paid.