Put and call options

Finance

Put and Call options Mr. Curtis April 5, currency The call option, the buyer hasthe right to buy a certain agreed quantity of commodity from a seller by a certain date agreed on for a certain price whereas the put option is the right to sell an underlying stock at a strike price by a certain date. In this case we see the difference since in the call option the buyer is allowed but not required to buy the quantity by a certain time for a certain price. In the put option the buyer is not allowed but is not required to sell the quantity by a certain date for the strike price. In both cases there are obligations that have to be met. In the call option the seller is obligated to sell the commodity whereas in the put option the seller has an obligation to buy the commodity. Also the value of the commodity matters a lot. In the call option the value increases as the value of the asset increases. In the put option the value increases as the value of the asset decreases (Chatnani 98).

In the call option the security deposit is allowed to take a certain commodity at a certain price if one chose to. On the other hand the put option has got an insurance policy that protects the commodities against loss in value. When it comes to motivations the buyer of the call option hopes to the price of the underlying product will go up but the seller of the call option hopes for it to go down. The buyer of the put option is advantaged if the prices went down. This is to prevent the risk that is limited to the premium. When it comes to the profits the buyer of the call option hopes that he will make a profit by buying stocks for less than their rising value. The seller of the call option hopes to make profits when the stock prices go down or if the prices go high below the price the buyer pays for creating the call option. When it comes to the put option the buyer is advantaged when the put option expires with the stock price above the strike price. Sellers In the put option

make profits if the stock price falls below the strike price. Call options shows how options trading are high risk, high reward by contrasting buying call options with buying stock. Both require the investor to believe that the stock price will rise. However, call options give very high rewards compared to the amount invested if the price appreciates wildly. The downside is that the investor loses all her money if the stock price does not rise well above the strike price (Sheeba 136).

Forward contract is an agreement between two parties to buy or sell an asset at a pre-agreed future point in time at a pre-agreed price. So while the date and price are decided in advance in forward contract, a futures contract is more unpredictable. The forward contract is made to the customers need. Even though it may be intuitive that future trades are more constrained and this should hamper efficient markets, the standardization of the contracts stimulates futures market and enhances liquidity. In forward contracts a bank or a brokerage is usually the counterparty to the contract, there is a buyer and seller on each side of a futures trade. The futures exchange selects the contract it will trade. If somebody was to receive 100, 000 Japanese yen in six months and the current exchange rate was 5yen to 1 U. S dollar the seller would be eligible to sell or buy or sell 500, 000 Japanese yen according to the ratio (Chatnani 175).

Work Cited

Chatnani. Commodity Markets. New York: Tata Mc Graw-Hill Educaton. Copyright, 2009.

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Sheeba. Financial Management. California: Pearson Education India.

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