Mathematics Behind the Options Calculator

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1 European Call

$$
\begin{aligned}
C &= Se^{-qT}\Phi(d_1) - Ke^{-rT}\Phi(d_2) \\
d_1 &= \frac{\ln\left(\frac{S}{K}\right) + (r - q + \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \\
d_2 &= d_1 - \sigma\sqrt{T}
\end{aligned}
$$

$$\boxed{Se^{-qT}\,\phi(d_1) = Ke^{-rT}\,\phi(d_2)} \qquad \text{(Black-Scholes identity)}$$

C Option price

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

Φ Standard normal CDF

ϕ Standard normal pdf

1.1 Delta

$$\boxed{\Delta = \frac{\partial C}{\partial S} = e^{-qT}\Phi(d_1)}$$

$$
\begin{aligned}
\Delta = \frac{\partial C}{\partial S} &= e^{-qT}\Phi(d_1) + Se^{-qT}\phi(d_1)\left(\frac{\partial d_1}{\partial S}\right) - Ke^{-rT}\phi(d_2)\left(\frac{\partial d_2}{\partial S}\right) \\
&= e^{-qT}\Phi(d_1) + \underbrace{Se^{-qT}\phi(d_1)\frac{1}{S\sigma\sqrt{T}} - Ke^{-rT}\phi(d_2)\frac{1}{S\sigma\sqrt{T}}}_{=0} \\
\Delta &= e^{-qT}\Phi(d_1)
\end{aligned}
$$

1.2 Gamma

$$\boxed{\Gamma = \frac{\partial^2 C}{\partial S^2} = e^{-qT}(\phi(d_1)\frac{1}{S\sigma\sqrt{T}})}$$

$$\begin{aligned}
\Gamma &= \frac{\partial^2 C}{\partial S^2} = \frac{\partial \Delta}{\partial S} \\
&= e^{-qT}\frac{\partial}{\partial S}(\Phi(d_1)) \\
\Gamma &= e^{-qT}\phi(d_1)\frac{1}{S\sigma\sqrt{T}}
\end{aligned}$$

1.3 Vega

$$\boxed{\mathcal{V} = \frac{\partial C}{\partial \sigma} = Se^{-qT}\phi(d_1)\sqrt{T}}$$

$$\begin{aligned}
\mathcal{V} &= \frac{\partial C}{\partial \sigma} = Se^{-qT}\phi(d_1)\left(\frac{\partial d_1}{\partial \sigma}\right) - Ke^{-rT}\phi(d_2)\left(\frac{\partial d_2}{\partial \sigma}\right) \\
\frac{\partial d_1}{\partial \sigma} &= \frac{\partial}{\partial \sigma}\left(\frac{\ln(\frac{S}{K})}{\sigma\sqrt{T}} + \frac{T(r-q)}{\sigma\sqrt{T}}\right) + \frac{1}{2}\sqrt{T} \\
\frac{\partial d_2}{\partial \sigma} &= \frac{\partial}{\partial \sigma}\left(\frac{\ln(\frac{S}{K})}{\sigma\sqrt{T}} + \frac{T(r-q)}{\sigma\sqrt{T}}\right) - \frac{1}{2}\sqrt{T} \\
\frac{\partial d_1}{\partial \sigma} &- \frac{\partial d_2}{\partial \sigma} = \sqrt{T} \\
\mathcal{V} &= Se^{-qT}\phi(d_1)\sqrt{T}
\end{aligned}$$

1.4 Theta

$$\boxed{\Theta = -e^{-qT}\frac{S\phi(d_1)\sigma}{2\sqrt{T}} - rKe^{-rT}\Phi(d_2) + qSe^{-qT}\Phi(d_1)}$$

$$\Theta = \frac{\partial C}{\partial T} = S\left(-qe^{-qT}\Phi(d_1) + e^{-qT}\phi(d_1)\frac{\partial d_1}{\partial T}\right) - K\left(-re^{-rT}\Phi(d_2) + e^{-rT}\phi(d_2) - \frac{\partial d_2}{\partial T}\right)$$

1.5 Rho

$$\boxed{\rho = KTe^{-rT}\Phi(d_2)}$$

2 European Put

$$
\begin{aligned}
P &= Ke^{-rT}\,\Phi(-d_2) \;-\; Se^{-qT}\,\Phi(-d_1) \\
d_1 &= \frac{\ln\left(\frac{S}{K}\right) + (r - q + \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \\
d_2 &= d_1 - \sigma\sqrt{T}
\end{aligned}
$$

P Option price

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

Φ Standard normal CDF

ϕ Standard normal pdf

2.1 Delta

$$
\boxed{\Delta = \frac{\partial P}{\partial S} = -e^{-qT}\Phi(-d_1)}
$$

2.2 Gamma

$$
\boxed{\Gamma = \frac{\partial^2 P}{\partial S^2} = e^{-qT}\,\frac{\phi(d_1)}{S\sigma\sqrt{T}} = Ke^{-rT}\,\frac{\phi(d_2)}{S^2\sigma\sqrt{T}}}
$$

Same as European Call derivation.

2.3 Vega

$$
\boxed{\mathcal{V} = \frac{\partial^2 P}{\partial S^2} = e^{-qT}\,\frac{\phi(d_1)}{S\sigma\sqrt{T}} = Ke^{-rT}\,\frac{\phi(d_2)}{S^2\sigma\sqrt{T}}}
$$

2.4 Theta

$$\boxed{\Theta = \frac{\partial P}{\partial T} = -e^{-qT}\frac{S\phi(d_1)\sigma}{2\sqrt{T}} + rKe^{-rT}\Phi(-d_2) - qSe^{-qT}\Phi(-d_1)}$$

2.5 Rho

$$\boxed{\rho = \frac{\partial^2 P}{\partial S^2} = e^{-qT}\frac{\phi(d_1)}{S\sigma\sqrt{T}} = Ke^{-rT}\frac{\phi(d_2)}{S^2\sigma\sqrt{T}}}$$

3 Binary Call (Cash-or-Nothing)

$$
\begin{aligned}
C_{\text{bin}} &= Q\, e^{-rT}\, \Phi(d_2) \\
d_1 &= \frac{\ln\left(\frac{S}{K}\right) + (r - q + \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \\
d_2 &= d_1 - \sigma\sqrt{T}
\end{aligned}
$$

C_{bin} Option price

Q Fixed cash payout if $S_T > K$

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

Φ Standard normal CDF

ϕ Standard normal pdf

3.1 Delta

$$
\boxed{\Delta = \frac{\partial C_{\text{bin}}}{\partial S} = Q\, e^{-rT}\, \frac{\phi(d_2)}{S\,\sigma\,\sqrt{T}}}
$$

3.2 Gamma

$$
\boxed{\Gamma = \frac{\partial^2 C_{\text{bin}}}{\partial S^2} = -Q\, e^{-rT}\, \frac{d_1\,\phi(d_2)}{S^2\,\sigma^2\,T}}
$$

3.3 Vega

$$
\boxed{\mathcal{V} = \frac{\partial C_{\text{bin}}}{\partial \sigma} = -Q\, e^{-rT}\, d_1\, \phi(d_2)}
$$

3.4 Theta

$$\boxed{\Theta = \frac{\partial C_{\text{bin}}}{\partial T} = Q\, e^{-rT} \left[-r\, \Phi(d_2) + \frac{\phi(d_2)}{2T} \left(\frac{\ln(\frac{S}{K}) + (r - q - \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \right) \right]}$$

3.5 Rho

$$\boxed{\rho = \frac{\partial C_{\text{bin}}}{\partial r} = Q\, e^{-rT} \left(-T\, \Phi(d_2) + \frac{\sqrt{T}}{\sigma}\, \phi(d_2) \right)}$$

4 Binary Put (Cash-or-Nothing)

$$
\begin{aligned}
P_{\text{bin}} &= Q\, e^{-rT}\, \Phi(-d_2) \\
d_1 &= \frac{\ln\left(\frac{S}{K}\right) + (r - q + \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \\
d_2 &= d_1 - \sigma\sqrt{T}
\end{aligned}
$$

P_{bin} Option price

Q Fixed cash payout if $S_T < K$

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

Φ Standard normal CDF

ϕ Standard normal pdf

4.1 Delta

$$
\boxed{\Delta = \frac{\partial P_{\text{bin}}}{\partial S} = -Q\, e^{-rT}\, \frac{\phi(d_2)}{S\, \sigma\, \sqrt{T}}}
$$

4.2 Gamma

$$
\boxed{\Gamma = \frac{\partial^2 P_{\text{bin}}}{\partial S^2} = Q\, e^{-rT}\, \frac{d_1\, \phi(d_2)}{S^2\, \sigma^2\, T}}
$$

4.3 Vega

$$
\boxed{\mathcal{V} = \frac{\partial P_{\text{bin}}}{\partial \sigma} = Q\, e^{-rT}\, d_1\, \phi(d_2)}
$$

4.4 Theta

$$\boxed{\Theta = \frac{\partial P_{\text{bin}}}{\partial T} = Q\, e^{-rT} \left[-r\, \Phi(-d_2) - \frac{\phi(d_2)}{2T} \left(\frac{\ln(\frac{S}{K}) + (r - q - \frac{1}{2}\sigma^2)T}{\sigma\sqrt{T}} \right) \right]}$$

4.5 Rho

$$\boxed{\rho = \frac{\partial P_{\text{bin}}}{\partial r} = Q\, e^{-rT} \left(-T\, \Phi(-d_2) - \frac{\sqrt{T}}{\sigma}\, \phi(d_2) \right)}$$

5 American Call

$$C^A = \sup_{\tau \in \mathcal{T}[0,T]} \mathbb{E}^{\mathbb{Q}}\left[e^{-r\tau} (S_\tau - K)^+\right]$$

(equals the European call when $q = 0$, since early exercise has no value).

C^A American call option price

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

τ Optimal stopping time $(0 \leq \tau \leq T)$

$\mathbb{E}^{\mathbb{Q}}$ Expectation under the risk-neutral measure

5.1 Delta

5.2 Gamma

5.3 Vega

5.4 Theta

5.5 Rho

6 American Put

$$P^A = \sup_{\tau \in \mathcal{T}[0,T]} \mathbb{E}^{\mathbb{Q}}\left[e^{-r\tau}\left(K - S_\tau\right)^+\right]$$

P^A American put option price

S Spot price

K Strike price

q Dividend rate

T Time to maturity

r Risk-free rate

σ Volatility

τ Optimal stopping time ($0 \leq \tau \leq T$)

$\mathbb{E}^{\mathbb{Q}}$ Expectation under the risk-neutral measure

6.1 Delta

6.2 Gamma

6.3 Vega

6.4 Theta

6.5 Rho