

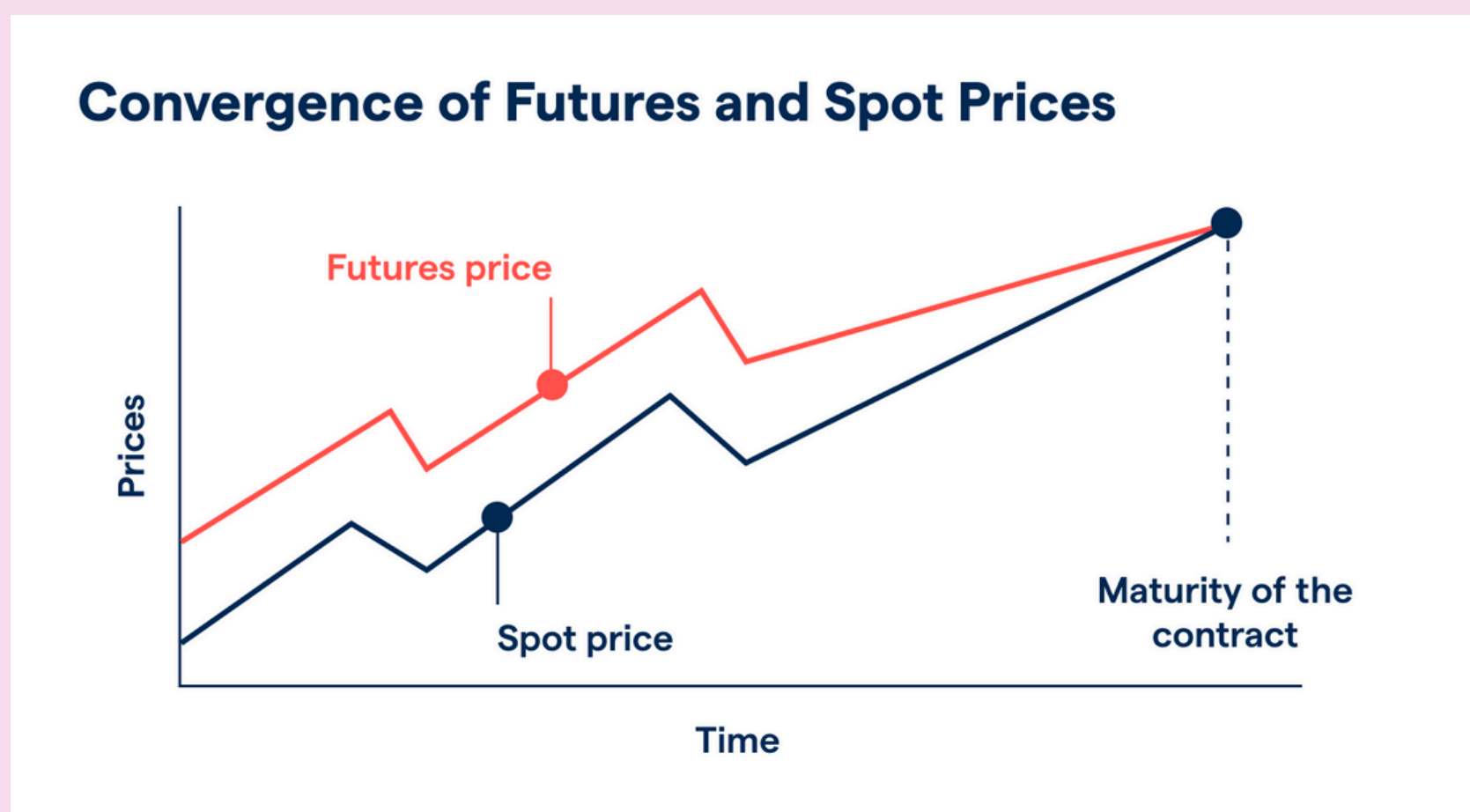
FUTURES AND OPTIONS

(simplest Explanation)



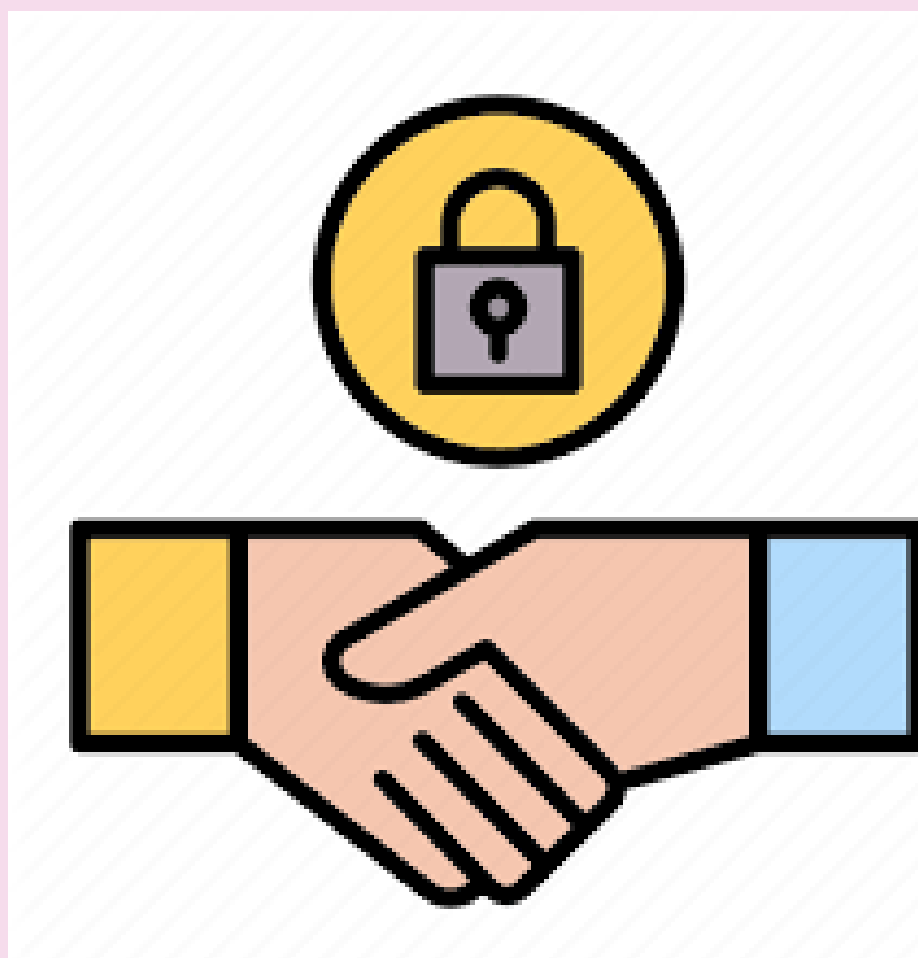
What Are **Futures** and **Options**? 🤔

Futures and options are like special deals in trading. They help you decide now what price you'll pay or receive for something in the future.



Futures Contracts

A futures contract is like making a deal today to buy or sell something (like a game, stock, or even gold) at a specific price on a specific date in the future.



Example of Futures Contracts 🎮

You hear that the game you want will cost ₹4,000 when it comes out in 3 months.

But you're worried the price might go up to ₹5,000.

So, you make a deal with the game store today: You'll pay ₹4,000 in 3 months, **no matter what the price is then.**

If the price goes up **to ₹5,000,** you win because you only have to pay ₹4,000.

But if the price **drops to ₹3,500,** you still have to pay ₹4,000.

That's the risk of a futures contract—you're locked in!



Options Contract

options contract gives you the right (but not the obligation) to buy or sell something at a specific price in the future. You pay a small fee (called a premium) for this right.



Example of Options Contract

Let's say you think the game might go up in price, but **you're not sure**. You don't want to commit like with a futures contract, so you buy an option instead.

You pay **₹200** for the option to buy the game at ₹4,000 in 3 months.

- If the game price goes up to ₹5,000, you can use your option to buy it at ₹4,000. You paid ₹4,000 + ₹200, which totals ₹4,200, but you saved **₹800** because the game is now worth ₹5,000.
- If the game price drops to ₹3,500, you can let the option expire and buy it for ₹3,500 instead. You lose the **₹200 fee**, but that's better than overpaying for the game!

Breaking It Down:

Futures: You have to buy or sell at the agreed price on the set date. **It's a commitment.**

Options: You can buy or sell at the agreed price, but you don't have to. **It's a choice.**



Pros and Cons of Futures and Options

- **Futures Pros:** No surprises—you're locked in.
- **Futures Cons:** If the price moves against you, you're stuck.
- **Options Pros:** Flexibility to choose.
- **Options Cons:** You pay a fee for the choice.