Akuna Options 101 Notes

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Contents

1 Terminology

We provide some basic terminology underlying options.

1.1 Basics

Definition 1.1: Bid

The Bid is the (highest) price for which someone is willing to buy something.

Definition 1.2: Offer

The Offer is the (lowest) price at which someone is willing to sell something.

Definition 1.3: Size

The Size is the amount of contracts one is willing to trade at a price.

Remark 1.1: Cushion

One tends to include a 'cushion' between the expected value and bid/offer.

The idea of 'market making' is thus providing bid, ask and sizes for each.

Example 1.1: Temperature Betting

The expected temperature tomorrow is $64°$. If one were to offer 4 bid contracts at $60°$ and 10 offer contracts at $68°$, then they are '60 bid for 4 and have 10 at 68'; '60 at 68, 4 by 10'.

Definition 1.4: Spread

The Spread is the difference between the bid and ask price.

Definition 1.5: Hedge

A trade or investment to reduce the risk of price movement in an asset (e.g. if we bet on a team to win, we 'hedge' this bet by making secondary bets against points, halftime score, 3 point %, etc.).

Definition 1.6: Paper

Interested parties trading against the market makers.

Definition 1.7: Broker

An intermediary between buyers and sellers.

Definition 1.8: Tick Size

The increment between one level and the next level (Stock goes from 100.00 $\rightarrow$100.1 indicates tick size of 0.01).

Definition 1.9: Queue Priority

A structure used to determine the right of precedence within those in a list (commonly Price-time priority $\rightarrow$separate orders into price bands, and then organize by time of request with highest bidders on top).

Definition 1.10: Spread

The Spread is the difference between the bid and ask price.

1.2 Order Types

Definition 1.11: Immediate or Cancel

(IOC) A type of order that requires all or part of the order to be executed immediately. Unfulfilled parts of order are cancelled.