**History Of Options**

The history of Option contracts can be traced back to 332 BC, when Thales bought the rights to buy olives prior to a harvest, who went on to amass a fortune from the purchase of these rights.

In 1636 options were widely bought to speculate on the soaring prices of tulips in Europe. At the time tulips became a sign of high status, and beauty; which fueled a craze of speculation from all levels in society. The wild speculation caused tulip prices to skyrocket, which also increased the number of growers and dealers looking to get into the trade. Dealers began selling the rights to own tulips in advance of the harvest, for buyers looking to secure a definite buying price. A year later, the price of tulips had gotten so high that no buyers were willing to pay the inflated price; resulting in a selling frenzy. The price of tulips had fallen faster than it rose; and almost all of the speculators were wiped out as the price declined lower than the originally agreed upon price to buy. The Dutch economy would collapse after the sharp decline, leading to the notorious reputation for options being a dangerous speculative instrument.

Although options gained a bad reputation, they later surfaced in London in the early 1700’s with financiers acknowledging its speculative power through its inherent leverage. It was later declared illegal in 1733, as groups opposed the speculative nature of options trading. It was outlawed for about 100 years, making a return in 1860 almost 100 years later.

In 1872 Russel Sage, a well-known American financier from New York; was the first to create calls and puts for trading in the US. Sage created options that were unstandardized and highly illiquid, resulting in an inefficient market for participants. However, Sage still managed to make millions within a few short years, before losing a fortune in the stock market crash of 1884. These unregulated Options continued to trade until the creation of the SEC after the stock market crash of the 1930’s. In 1973 The Chicago Board of Exchange and Options Clearing Corporation were formed to standardize and allow retail investors to participate in the trade under the performance guarantee of the OCC, and liquidity of the market maker system. By 1977 put options were introduced to the CBOE, which created the options market that we can trade today.

**Modeling Option’s prices:**

The Black Scholes model was developed in 1973 by Robert Merton and Myron Scholes, around the same time that options became live in United States markets. The equation estimates the theoretical value of options based on the risk-free rate of return, and the underlying asset, along with time until expiration. The Black Scholes model is still considered one of the best methods to price an option contract today. However, there are some major assumptions proposed by the model. First the model assumes that stock prices follow a log normal distribution that follow a random walk with a constant drift and volatility, no dividends are paid, a constant risk-free rate of return for all maturities, and that there are no costs or restraints associated with trade transactions.