



5.2 IMPORTANT TERMS TO UNDERSTAND OPTIONS CONTRACT

Let us begin with understanding some standard terms used in the Option Contracts.



STRIKE PRICE

STRIKE PRICE REFERS TO THE PRICE AT WHICH THE BUYER OR SELLER HAS THE RIGHT TO BUY OR SELL THE ASSET IN THE FUTURE AS PER THE CONTRACT. STRIKE PRICE IS THE PRICE THAT DETERMINES THE PROFIT OR LOSS ON THE POSITION.

For instance, if we have a call option strike price at ₹2100 and at the time of expiry the price is ₹2900, then the difference of ₹800, calculated from the strike, would be the payoff.

Had the strike price been ₹2500, then the payoff would have been ₹400 instead of ₹800

EXCERCISE PRICE ₹2900

STRIKE PRICE ₹2100 PROFIT #800

EXERCISE PRICE

Exercise price of an option is the price of the underlying asset on the expiry date of the contract. The difference between the exercise price and the strike price determines the profit or loss in an option contract.





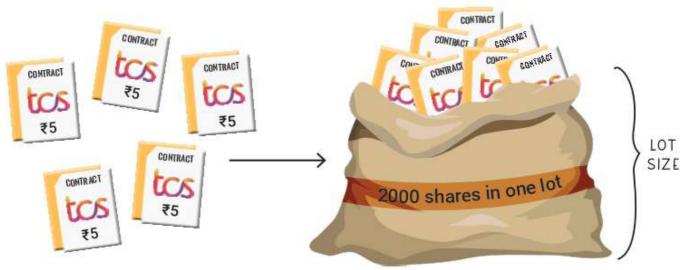
EXPIRY

Expiry Date refers to the date till which the option contract is valid. The price of the underlying asset on this particular date forms the Exercise Price. In India, expiry for shares related options happens to be the last Thursday of each month.





LOT SIZE



₹5 x 2000 Shares = ₹10,000

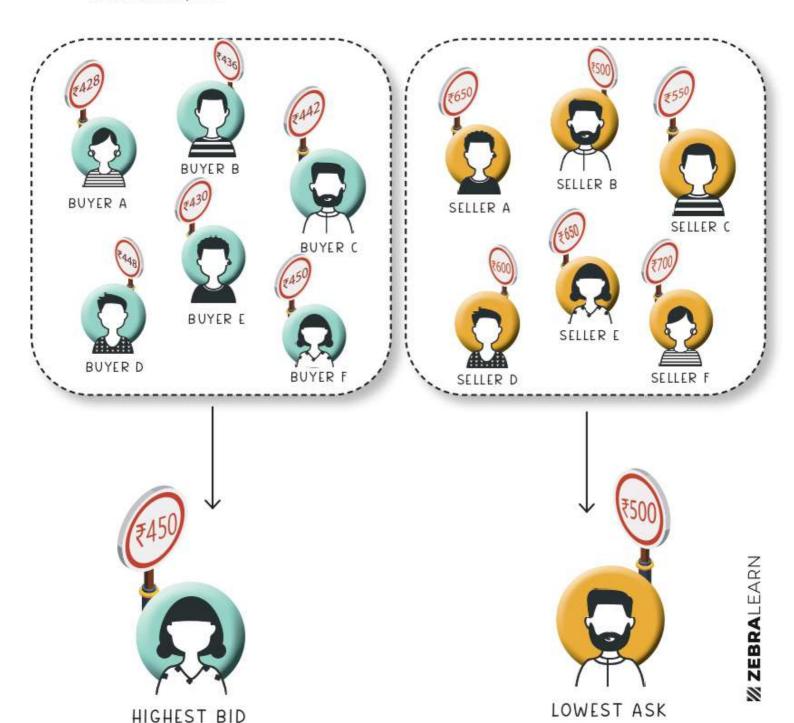
Single option contracts cannot be purchased. They have to be bought and sold in lots. The number of contracts in each lot determines the Lot size. So, if an option contract is worth ₹5 and has a lot of 2000 contracts, then each lot costs ₹10,000.

PREMIUM



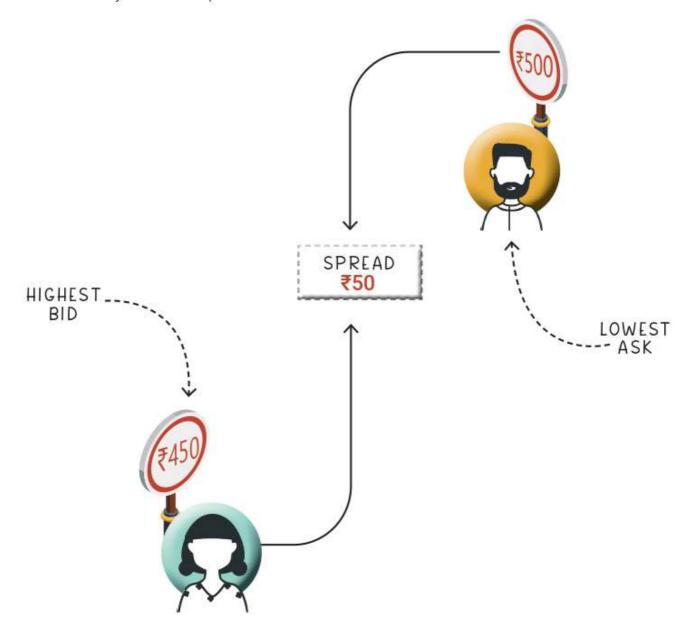
Similar to Futures, options are also sold in Auction model. The highest that a buyer is willing to pay, is called the Bid Price in the market. Any seller wanting to sell immediately will have to sell at this price.

Ask Price is the lowest price at which a seller is ready to sell the option contract. A buyer looking to buy immediately will have to pay the Ask Price.



BID-ASK SPREAD

The spread is the difference between the bid and ask price of an asset. The buyers want to buy at the lowest and the sellers what to sell at the highest possible price. This is why there is a spread between the two.



Bid-Ask spread can be low or high depending on the liquidity of the market. If the market is liquid i.e. it has lot of buyers and sellers, then the bid-ask spread would be thin i.e. low. If there are limited number of buyers and sellers, then the bid-ask spread would be high. Bid-ask spread adds to transaction costs when executing any strategy.

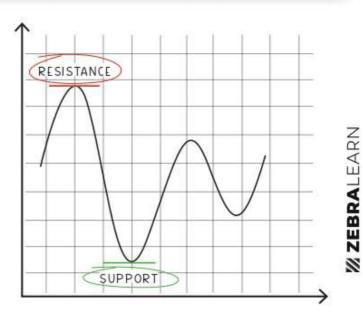
OPEN INTEREST

Open Interest refers to the total number of options that currently exist in the market at different strike prices for any particular underlying asset.

For example, TCS will have different number of call options and put options at different strike prices. This is called Open Interest at different strike prices.

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	View 0	ptions Conti	tions Contracts for:		NIFTY 🗸			OR Search for an underlying stock					Filter by	Explin	Explry Date 2JUL2020 🕶			Futures contracts					
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	863	87,525	-59,775	2.226		566,00	132.35	75	563.50	565.30	379	10000.00	114,375	0.15	0.20	394,725	-3.60	0.15	102,503	-269.175	3,157,650	100	
	100	10,350	600	41		500.00		525	513.95	316.60	150	2 100 7 100 500	77.025	0.15	0.20		-4.20	0.15 -	18,440	-59,475	372,075	796	
	1	91,050	-27,525	1,822		467.85		75		466.65	150	Ship and the same of the same	V 15 15 13	0.15	0.20	137,775	-5.05	0.15	73,120	69,675	1,593,000	548	
	8	28,800	-900	237	-	416.90	130.40	75	413.45	416.65	75	10150.00	151,650	0.15	0.20	11,925	-6,55	0.15	50,377	39,225	849,600	85	
	P3	251,925	-133,800	7,912	3	365,30	123.80	150	363.95	365.55	150	10200.00	327,000	0.20	0.25	79,125	-8.90	0.20	211,545	1,501,425	3,902,250	P5	
TM	100	87,225	-22,725	2,754		317.25	124,45	750	313.75	315,40	150	10250.00	163,500	0.30	0.35	37,275	-12,60	0.30 -	155,820	1,212,300	2,190,750	E -	
	PS	552,075	426,075	39,727	3	264.65	112.15	75	264.90	765.55	75	10300.00	242,100	0.30	0.35	190,725	19,05	0.35 -	484,604	2,402,775	5,915,850	5 5	MTC
	25	173,625	-103,350	15,484	3	216.00	103.75	75	214.30	215.25	150	10350.00	102,000	0.35	0.40	83,775	-29.20	0.40 -	345,757	1,635,900	2,610,825		
	22		-1,370,250	214,744	-	164.85	87.00	150	164.75	165.40	75	10400.00	88,050	0.55	0.60	91,575	-44,90	0.60 -	840,854	4,135,350	6,274,875		
	. 123	462,675	-443,250	198,849	-	115.00	64.35	75	115.50	115.95	75	10450.00	6,450	1.20	1.25	450	-66.15	1.25	687,896	3,501,750	3,829,350		
	99	2,432,025	-792,750	1,009,627		69.20	39,60	225	69.20	69.50	150	10500.00	12,600	5.05	5.10	225	-91,30	5.10	1,162,291	6,257,175	6,748,950		
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			3,290,850	1,326,678	4	10.40	3,35	3,675	10.40	10.50	973	10600.00	975	45.50	45.75		126.25	-	211,456	the second second	847,050	5 5	АТМ
			3,180,150	547,916	- 4	1,75	-1.10	7,650	1.75	1.90	10,650	10650.00	150	86.55	87.10		140.45		13,438	92,700	99,900		
	27		1,783,650	357,561	-	0.40	-1.10	37,725	0.40	0.45		10700.00	75	135.35	135.75		-135.00		14,619	75.600	103,275		
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	85	81,375	25.875	1,612		0.10	-0.40		0.05	0.10			375	383.00	386-35		-247,75		147	6/3	150	346	M
	EGG	2.650.200	183,225	41,359		0.05		302,100	0.05		110,550		225	431.35	435.85		-136.15		437	1,500	14,775		
	90	36,525	-1,350	581	- 4	0.05	-0.40		2.00	0.05	1.575	11050.00	600	487.90	486.40	600	-		107	,15790	75	6	
	100	270,675	-3,375	2,622	4	0.05	-0.30			0.05		11100.00	600	532.75	536.40	600	-		-	-	73	5.05	
	183	12,300	-300	17	-	0.05	-0.25	-	-	0.05	-	11150.00	7,350	547.00	697.10	7,725			_		75	200	
	PS .	421,200	3,225	3,576	4	0.05	-0.35	-	-	0.05	15,825	11200.00	7,350	597.10	655.45	75	+		-		O 25	100	
		30.225	2.925	190	4	0.05	-0.25	1,350	0.05	0.10	4.950	11250.00	75	650.05	713.60	75	+			-	, w		
	Total	29,476,575		4,914,128									100						4,929,003		49,377,525	Tot	
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Traders have trading strategies purely looking at the Open Interest at different levels too. Too high open interest for call option often denotes Resistance at that strike price and too high open interest for Put at a price denotes support levels in general.



BREAK EVEN POINT



The price at which you make no profit no loss as a buyer or seller of option contract is called the Break-even price. So, if you have purchased a call option, the exercise price must be higher than the Break-even point to make a profit.

For instance,

let us say the strike of a call option is ₹2100, the premium being ₹50 and exercise price is ₹2150 at the expiry date.



