

CHAPTER 7

PUT CALL PARITY

- 7.1 Introduction
- 7.2 What does the put call parity relationship say?
- 7.3 Assumptions of Put Call Parity
- 7.4 Put Call Ratio (PCR)

7.1 INTRODUCTION

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PUT CALL PARITY DEFINES THE RELATIONSHIP BETWEEN A CALL OPTION PRICE, PUT OPTION PRICE AND THE SPOT PRICE OF ANY GIVEN ASSET.

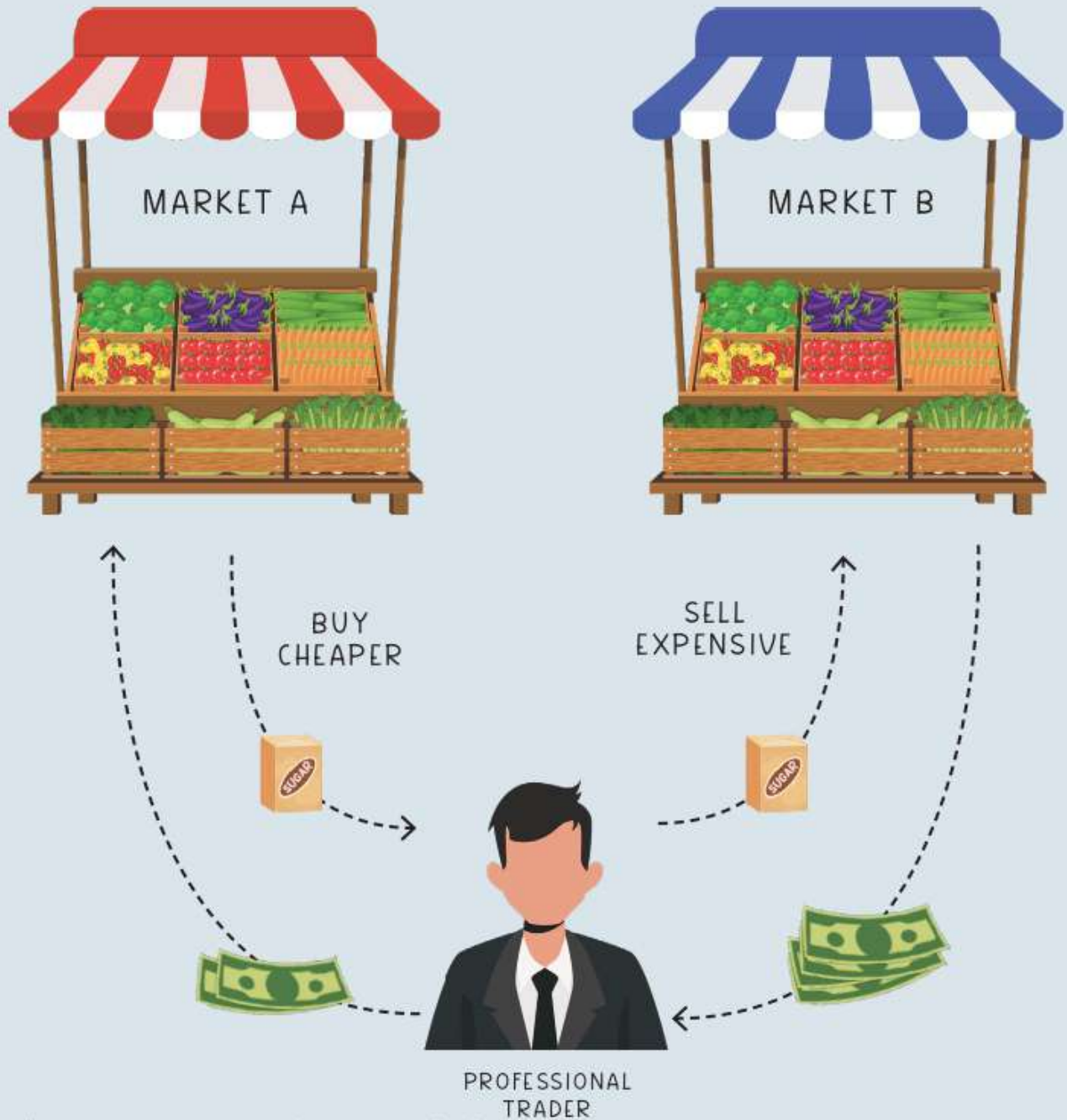
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While Put Call Parity may not be that often used in a real-life scenario or in our day-to-day life, understanding the same is really important to understand the relation between derivative contracts and the asset.

In case the Put Call Parity relationship does not hold true, there is a chance for arbitrage.

ARBITRAGE



Professional Traders may enter into a trade to benefit from opportunities whenever Put-Call Relation is broken. Such arbitrage opportunities arise due to inefficiencies in the market.