

## 5.6 OPTION PAYOFFS

Option payoff chart shows the profits and losses at different levels of prices of the underlying asset. Here, we calculate the profit or loss at each price of the underlying asset on expiry. This explains us the circumstances in which the option makes money and circumstances when it loses money.



Going ahead we will learn how to create a payoff chart for different option strategies. Payoff charts help us understand the risk-reward under different circumstances and help in decision making.

In the next chapter and the chapter on option strategies, we will learn about Option payoff charts in great detail.

## This image shows a full page of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page, typical of notebook paper. There are no margins, text, or other markings on the page.

## Notes

