Option Prices Explained

This section describes the key factors that drive an option's value.

The three biggest factors that determine the price of an option are:

- **Price** - the token price relative to the strike price
- **Time** - the amount of time remaining until expiration
- **Implied Volatility** - how much the token is expected to move until expiration

Price

If **an option is in the money, then it is said to have intrinsic value**. For example, the $80 strike call for an asset worth $100 can be immediately exercised to realize a $20 gain. When you buy this call, the $20 intrinsic value is baked into the price of the option (you don't get it for free).

Time

The more time to expiry, the more time there is for the token to move and the more expensive the option is. **The price of an option is strictly increasing with respect to time.**

Implied Volatility

The implied volatility *(IV)* of an asset expresses how much the asset is expected to move until expiration as a percentage. The higher the *IV* of an asset, the more it is expected to move, and the more expensive options are. Similarly, if *IV* is low, options will be cheaper. Since the price of an asset and the time to expiry are publicly available inputs, the *IV* of the asset is the biggest driver of pricing differences between options traders. Volatility is described in more detail in the next section.