

Advanced Finance - Cheatsheet

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L1: Understanding Options

Terminology

Derivatives: Any financial instrument that is derived from another
e.g. options, warrants, futures, swaps

Option: gives the holder the right to buy or sell a security at a
specified price during a specified time period

Call Option: The right to buy a security at a specified price within
a specified time

Put Option: The right to sell a security at a specified price within
a specified time

Option Premium: The price paid for the option, above the price
of the underlying security

Intrinsic Value: Difference between the strike price and the stock
price

Time Premium: Value of option above the intrinsic value

Exercise Price: (Strike Price) The price at which you buy or sell
the security