



[Summary]

[Derivatives (Part - 2)]

Subject: Business Economics

Course: B. A. (Hons.), 5th
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Paper No. & Title: Paper – 511
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Unit No. & Title: Unit – 5
Derivatives

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Derivatives (Part - 2)

Summary:

Options are mainly derivatives contracts in exchange for a price and it derives its value from an underlying stock. There are two types of option call option and put option each having two positions a long position and a short position. American options and European options are two main types of option. However, we commonly deal with European options.

The premium of the option contracts is contingent upon whether the option is in the money, At the money and Out of the money. In order to hedge the risk many traders, investors and arbitrators use various option trading strategies like protective put, covered call, spread and combination strategies.