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Nov 2017

FIN401 - Options Template

If Investor Expects Price to:	They Will Buy a:	They Will Sell a:
Increase	Call	Put
Decrease	Put	Call

Note: The question will always give you the Exercise Price (aka Strike Price), Premium, and Expiry Price.

Step 1: Calculate Total Option Premium (Buyer pays Premium, Seller collects Premium)

Total Premium = Premium per Contract x Number of Contracts x 100

Step 2: Determine Profitability Zones from the **Buyer's Perspective**

- Buyer of a Call is Profitable when Expiry Price > Premium + Exercise Price
- Buyer of a Put is Profitable when Expiry Price < Exercise Price – Premium

Note: If Profitable for Buyer, Buyer will Exercise and Seller is forced to oblige.
If not Profitable for Buyer, Option will Expire.

Step 3: Calculate Payoffs

- If contract expired:
  - Buyer didn't receive a profit, their payoff is negative and equal to the paid Premium
  - Seller not forced to exercise, their payoff is positive and equal to the collected Premium

- If contract was exercised:
  - Buyer of a Call's Payoff = (Expiry Price – Premium per Contract - Exercise Price) x # of Contracts x 100
  - Buyer of a Put's Payoff = (Exercise Price – Premium per Contract – Expiry Price) x # of Contracts x 100

Note: The seller will have a loss if contract was exercised, and this is equivalent to the Buyer's payoff.