

Chapter Assignments:

Optional bonus extra credit: See assignment below (5 points)

Due: Tue/Thu May 15th; Online: May 17th

Chapter Sections:

Options on Common Stocks
The Options Clearing Corporation
Why Options?
Stock Index Options
Option “Moneyness”
Option Payoffs and Profits
Using Options to Manage Risk
Option Trading Strategy
Option Intrinsic Value
Arbitrage and Option Pricing Bounds
Put-Call Parity

Chapter Terms:

option (a.k.a. options contract)
derivative security
call *versus* put
option buyer
option seller (a.k.a. option writer, option maker)
leverage
listed option *versus* OTC options (a.k.a. conventional options)
CBOE (Chicago Board Options Exchange)
strike price
expiration date
American-style *versus* European-style
“in-the-money” option
“out-of-the-money” option
option premium
time premium
hedging
protective put
covered options (*writing covered calls is one of the two option strategies I would ever remotely consider using*)
naked options (*writing naked puts is the other, but in reality, I am pretty sure I will never trade options*)
option straddles and spreads
employee stock options (a.k.a. ESOs)
Black-Shoales Option Pricing Model (a.k.a. Black-Shoales-Merton model)
stock-index options
interest rate options
currency options
LEAPS – Long-term Equity Anticipation Securities
warrants (*often used as a “sweetener” when there is a stock spinoff or other such transaction*)

Optional bonus extra credit:

At www.marketwatch.com (or any financial web site except Yahoo! which is giving bad options quotes), record the price of the Jun 2014 call options for PG with a strike price of \$80 and the price of the Jun 2014 call options for GOOGL with a strike price of \$530. One week later, record the prices again. If you had purchased a single contract (100 shares per contract! Multiply price by 100) of each, how much would you have gained or lost? Subtract \$40 from your gain or loss for commissions. (Four trades, 2 purchases & 2 sales, at \$10 per trade.) Would you consider trading options? (*Don't do it! You will be sorry! I mean it! Stay away from gambling, oops, I mean, “speculating” in options!*)