**19BAE710-FINANCIAL DERIVATIVES**

**Specifications of Options**

Every stock option has four predetermined specifications:

1. The underlying asset.
2. The type of stock option (call or put).
3. The exercise price (or the strike price).
4. The expiration date (or exercise date).

**1. Call Option:**

- Buyer's Right: Allows the holder to buy the underlying asset at the agreed-upon strike price.
- Seller's Obligation: Obligates the seller to sell the underlying asset if the buyer decides to exercise the option.
- Profit Potential: Unlimited for the buyer, limited to the premium received for the seller.
- Use: Investors use call options to profit from a potential increase in the value of the underlying asset.

**2. Put Option:**

- Buyer's Right: Allows the holder to sell the underlying asset at the agreed-upon strike price.
- Seller's Obligation: Obligates the seller to buy the underlying asset if the buyer decides to exercise the option.
- Profit Potential: Unlimited for the buyer, limited to the premium received for the seller.
- Use: Investors use put options to profit from a potential decrease in the value of the underlying asset.

**Common Specifications:**

- Strike Price: The agreed-upon price at which the asset can be bought or sold.
- Expiration Date: The date at which the option contract expires. Options are time-sensitive.
- Premium: The price paid by the option buyer to the seller for the rights conveyed by the option.
- Underlying Asset: The actual asset (stocks, commodities, currencies) the option is based on.