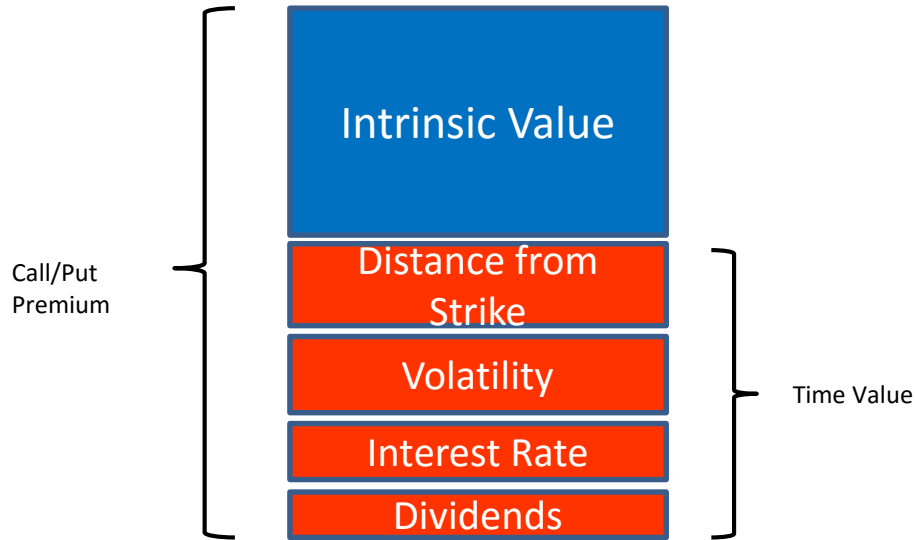


Option Pricing

Price Components of an Option

Option Price Components



- Time Value Component of Options can be further rooted to the following parts: Distance of Price to Strike, IV, risk-free rate and dividends distributed during the life of the option.
- Intrinsic Value = absolute value of the difference between Price of Underlying and Strike when Option is deep ITM (where delta is 1 or -1) or ITM at expiry.
- Option Prices are always either zero or positive value. ATM or OTM options at expiry are zero worth.
- Sample Valuation Models of options: Black Scholes, Binomial Pricing Models.