**Practice Questions for Options**

1) If the current spot price is 190, strike interval is 10 and strike price range is 10-1-10, mention highest strike price generated by the exchange.

***Answer: Ten strike prices will be generated beyond current spot price. If the first strike price is 190 then, 10 strike prices beyond 190 will be 200,210,220,230,240,250,260,270,280,290. Hence 290 will be the highest strike price.***

2) If strike price is Rs. 200 for a call option, spot price is Rs. 250 and premium is Rs. 90, what should be the value of spot price for the seller of option to retain entire premium on expiry,( as the buyer will not exercise the option).

***Answer: At any spot price less than 200, seller will retain entire premium. Buyer will exercise the option only when spot price exceeds strike price.***

3) Which of the following will remain constant for entire contract period for a transaction done by a buyer of call option?

*a) Strike Price, b) Spot Price, and c) Premium (Select whichever is/are applicable)*

***Answer: Strike price remains fixed once a contract is entered into. Spot price keeps on varying depending upon change in market conditions. Premium at which buyer purchased a call option contract will vary also depending upon change in spot price and other variables such as volatility, time etc.***

4) Gain of a call option buyer is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ but the loss of a call option buyer is limited to the \_\_\_\_\_\_\_\_\_\_ paid.

***Answer: Unlimited, Premium***

5) I have the obligation in an option contract but no right. Who am I?

***Answer: It the buyer who has right but not the obligation in an option contract.***

6) I bought a call option with a strike price of 250 and premium of Rs. 22. There are two probabilities from here. The spot price may go up to 300 or fall to 180. What is my gain/loss when spot price is 300 and when it is 180?

***Answer: When the price is 300, gain/loss can be calculated as follows:***

***Max (0,S-X)-P = MAX (0,300-250)-22= 28. This is the gain***

***When the price is 180, then gain/loss can be calculated as follows:***

***Max (0, S-X)-P= MAX(0,180-300)-22= -22. This is the loss***

7) \_\_\_\_\_\_\_\_\_ is the amount paid by the buyer to the seller.

***Answer: Premium***

8) Call option gives right to \_\_\_\_\_\_\_ while put option gives right to \_\_\_\_\_\_\_\_\_.

***Answer: Buy, Sell***

9) Option can be both Exchange traded as well \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

***Answer: OTC***

10) Name four underlying assets on which option can be created.

***Answer: Equity, Gold, Currency &Interest Rates***