Implied Volatility & Skew

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Read a Skew Gap

A stock's out-of-the-money put trades at 25% IV and its equivalent call trades at 15% IV. Calculate the skew gap and classify it using the lesson's thresholds.

Section 2 - Distinguish IV From Realized Volatility

In your own words, explain the difference between implied volatility and realized (historical) volatility.

Section 3 - Plan Around a Known Event

A stock reports earnings next week and its IV has risen sharply. What risk does a trader buying an option now face from volatility crush after the event?

Section 4 - Interpret a Steepening Skew

If a market's put-call IV skew gap widened from 4 points to 12 points over a week, what might that suggest is happening in the market?

Section 5 - Reflection

Why does the lesson caution that high IV doesn't guarantee a stock will actually move a lot?