What Is an Option?

PRO PRACTICE WORKSHEET

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

Section 1 - Calculate a Call Payoff

A call option has a $50 strike and a $2.50 premium. Calculate the option value and buyer's P&L if the stock is at $48, $52.50, and $60 at expiration.

Section 2 - Calculate a Put Payoff

A put option has a $50 strike and a $2 premium. Calculate the option value and buyer's P&L if the stock is at $55, $48, and $40 at expiration.

Section 3 - Find the Breakeven

For a call with a $75 strike and a $3 premium, what is the breakeven stock price? What about a put with the same strike and premium?

Section 4 - Compare Buyer and Seller Risk

For the call in Section 1, describe the seller's position: what is their maximum gain, and what is their risk if the stock keeps rising?

Section 5 - Reflection

In your own words, explain why a long option's maximum loss is capped but a short (sold) uncovered call's maximum loss is not.