



SNS College of Technology

Coimbatore - 35

Unit III – Options Contract

23BAE703 – Derivatives
and Risk Management



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Guess the Topic!!!

**American and
European
Options**





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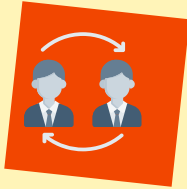


Recap

1. Why to go for Call and Put Options?
2. Call Options
3. Put Options



Why to go for American and European Options





Style of Options



EUROPEAN STYLE: 
Exercise only at expiration

AMERICAN STYLE: 
Exercise at any time prior to expiration

Styles Of Options



American versus European Options





How do Options Work

Options

A European Call Option

gives the holder the *right* to buy the underlying asset for a prescribed price (exercise/strike price), on a prescribed date (expiry date).

A European Put Option

gives the holder the right to sell the underlying asset for a prescribed price (exercise/strike price), on a prescribed date (expiry date).

American Options

exercise is permitted at any time **during** the life of the option (call or put).

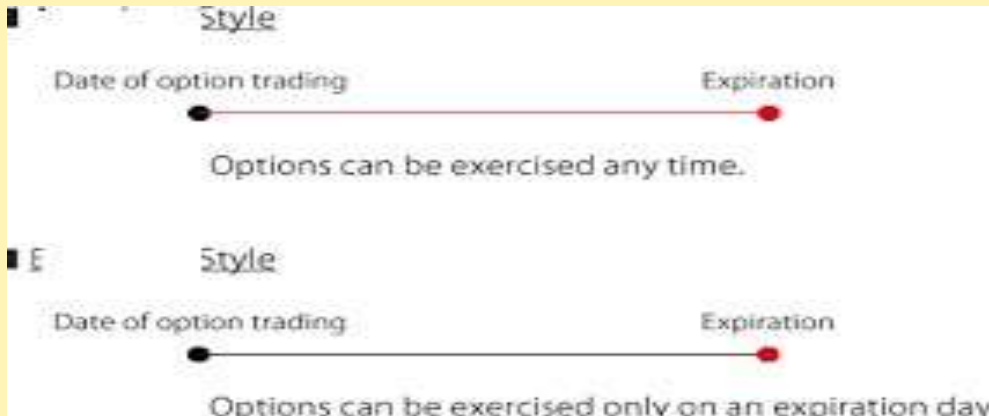
Jacoby, Stangeland and Wajeeli, 2000

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Knowledge Check

Find out the option style



American Style
European Style



Kinds of Put Option





Example

Mini-SPX Index Options

Cash Settlement
European Style (No early exercise)
SPX Underlying
1256 Tax Treatment*

SPY ETF Options

Shares Settlement
American Style (Dividend assignment risk)
SPY Underlying



Example

Description	Underlying Options Chain	Options Root Ticker Symbol	Settlement AM or PM	Settlement Date*	Settlement Type	Exercise Style	GTH Available**
SPX Options Traditional (AM-Settled on 3rd Friday of Every Month)							
SPX	SPX	SPX	AM-settled	3rd Friday	Cash	European	Yes
SPX Options Non-Traditional (PM-Settled on Various Expiration Dates)							
SPX Weeklys	SPX	SPXW	PM-settled	Mondays Wednesdays Fridays	Cash	European	Yes
SPX End-of-Month (EOM)	SPX	SPXW	PM-settled	Last Trading day of Month	Cash	European	Yes
SPX Options - Mini (1/10th the Notional Size)							
Mini-SPX Index Options (Weeklys Available)	XSP	XSP	PM-settled	Fridays	Cash	European	No
SPY Options - SPDR ETF							
SPDR ETF Options (3rd Fridays, Weeklys and Quarterlys)	SPY	SPY	PM-settled	Fridays or End of Quarters	Physical ETF	American	No



Knowledge Check

A/An _____ gives the buyer the right, but not the obligation, to exercise the option at the any time before the expiration date

- a. American Option
- b. European Option
- c. At-The-Money Option
- d. Asian Option

American Option



Summary

1. Why to go for American and European Style Options?
2. Style of Options
3. American Versus European Options
4. Example for American and European Option



RESOURCES

<https://brilliant.org/wiki/american-and-european-options/>

<https://www.wallstreetmojo.com/european-vs-american-option/>

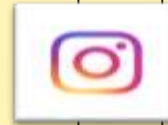


Reach us @

THANKS!



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