Andreas Krause

Hedging with options

Option types

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Option types

- Options give the purchaser the right to buy or sell the underlying asset

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Option types

- Options give the purchaser the right (but not the obligation) to buy or sell the underlying asset

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Option types

- Options give the purchaser the right (but not the obligation) to buy or sell the underlying asset in the future

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Option types

- Options give the purchaser the right (but not the obligation) to buy or sell the underlying asset in the future at a given price

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Option types

- Options give the purchaser the right (but not the obligation) to buy or sell the underlying asset in the future at a given price (strike price)

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- The seller of the option has to sell or buy the underlying asset on demand of the purchaser

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- European options give the right to exercise the option at maturity only

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- American options give the right to exercise the option at any time until maturity

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European call option payments at maturity

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Call option payoffs

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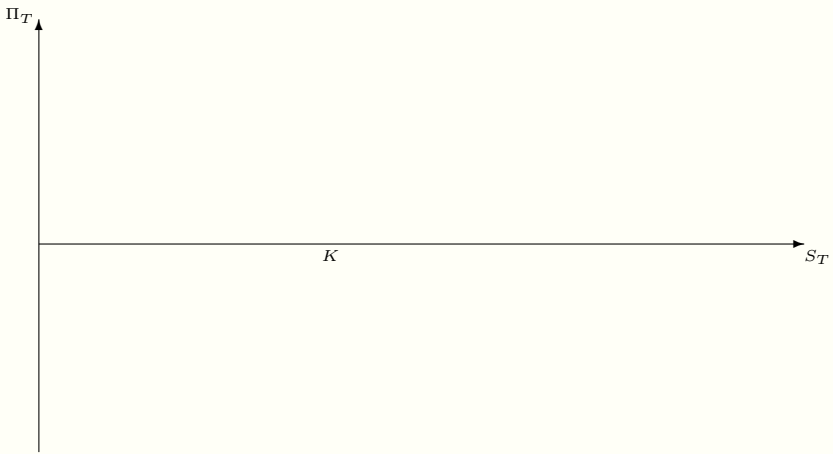
Call option payoffs



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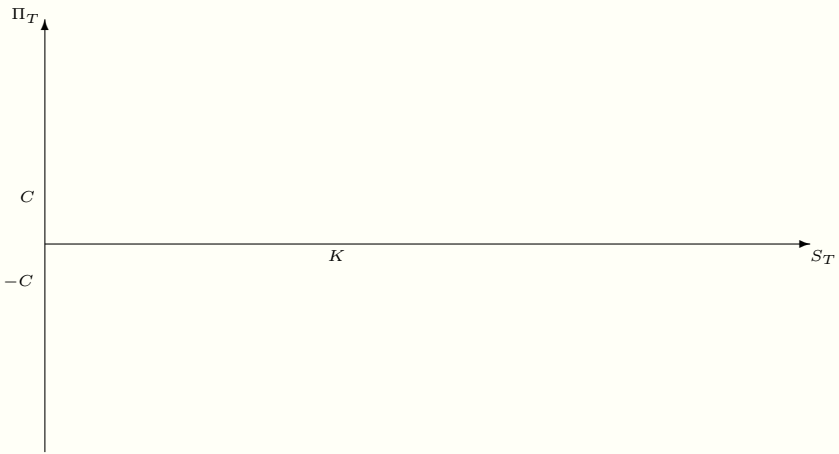

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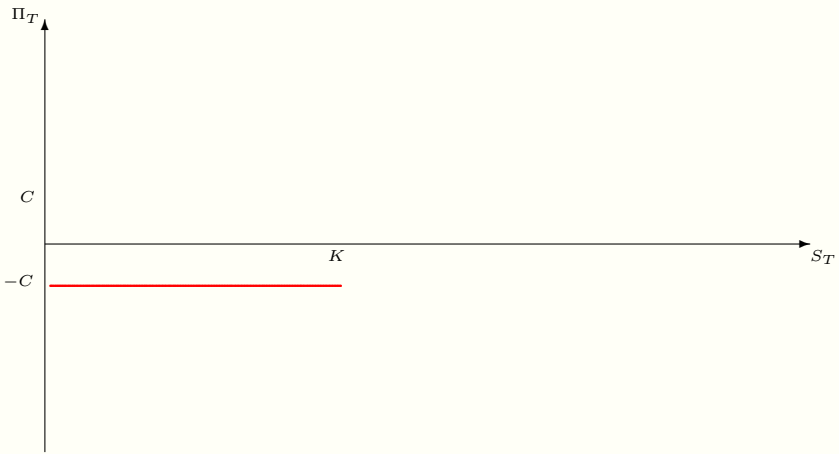

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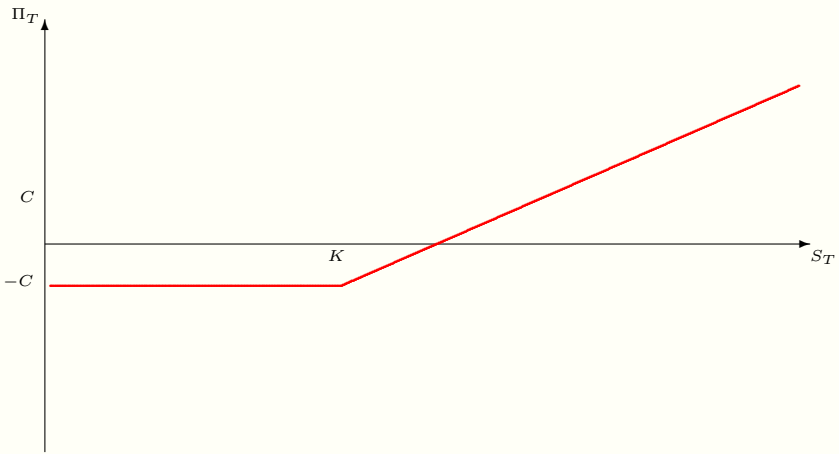

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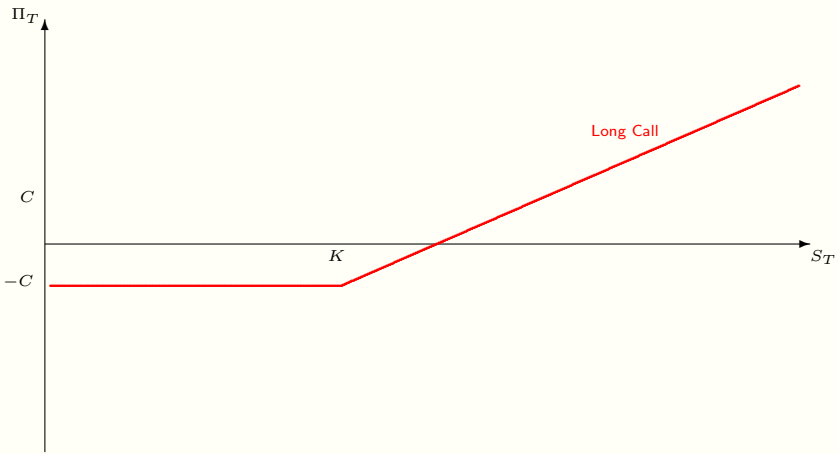

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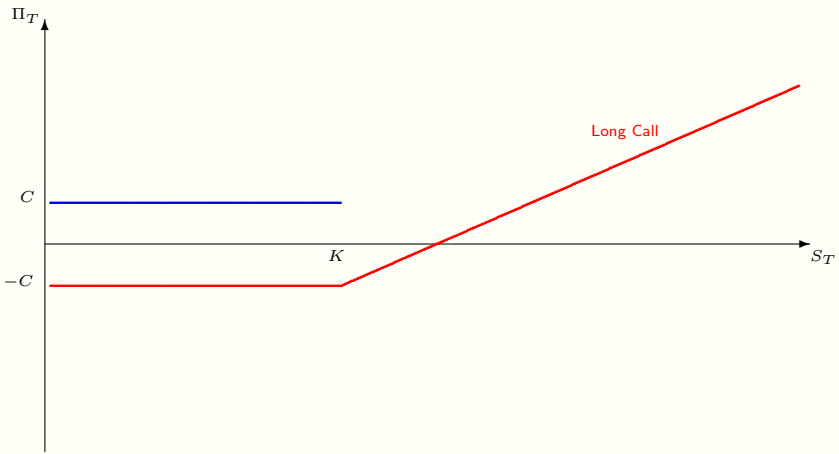

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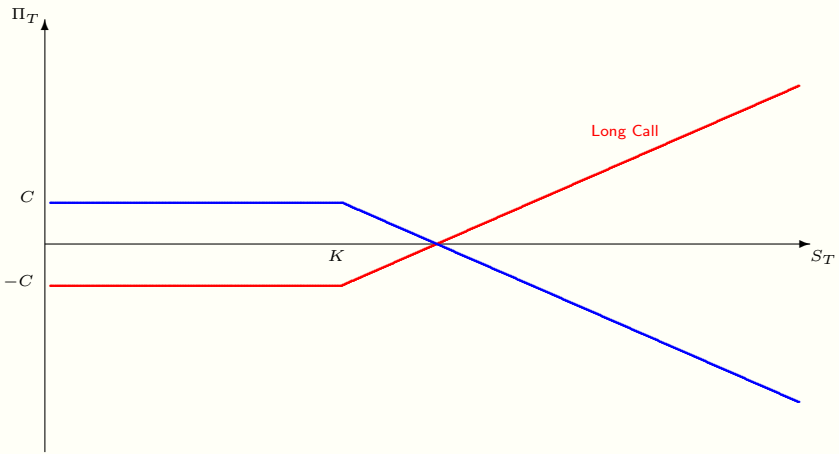

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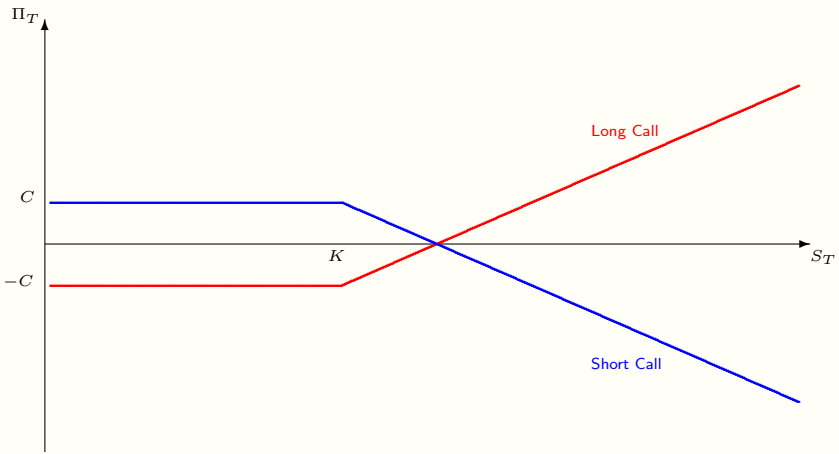

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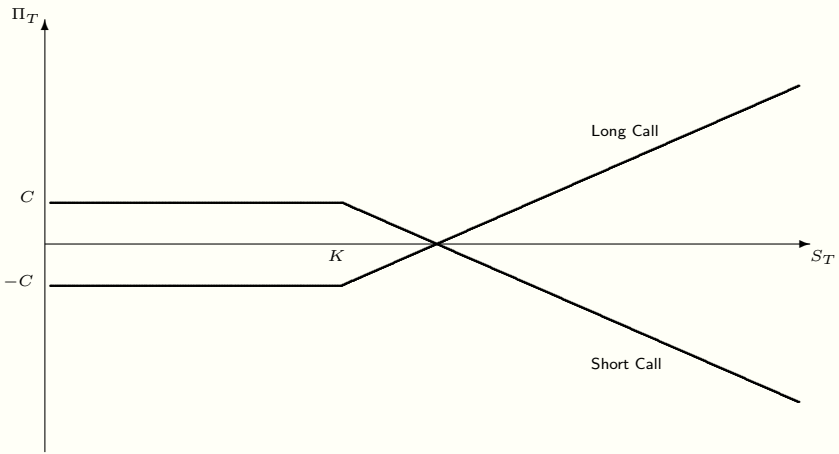

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European put option payments at maturity

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Put option payoffs

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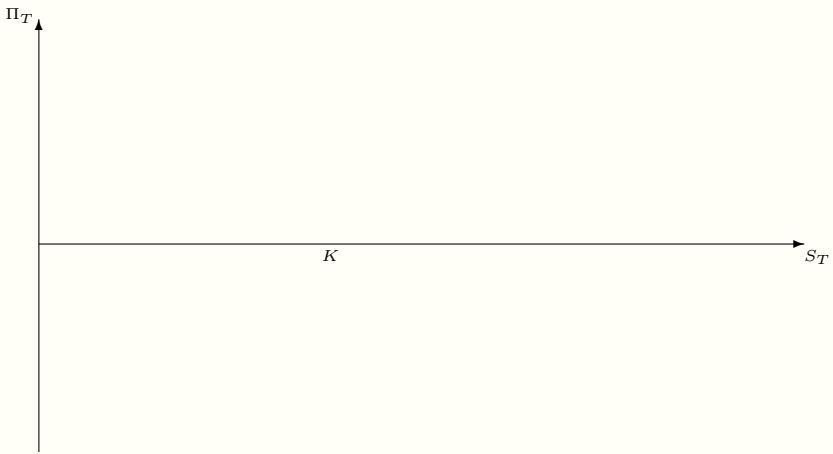

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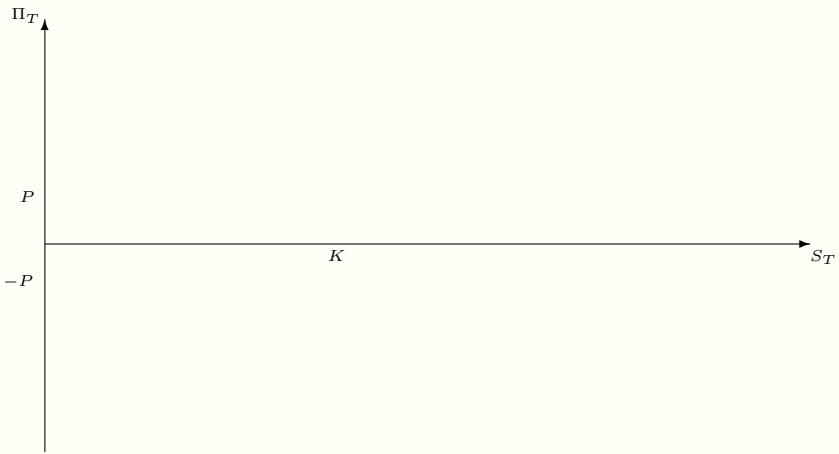

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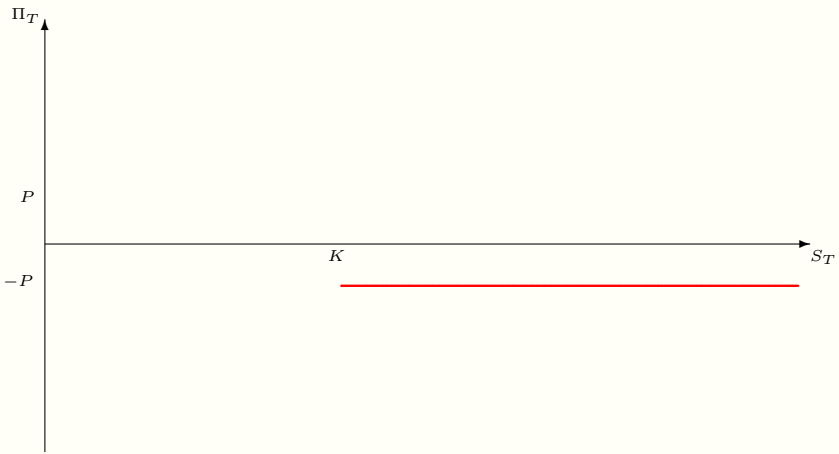

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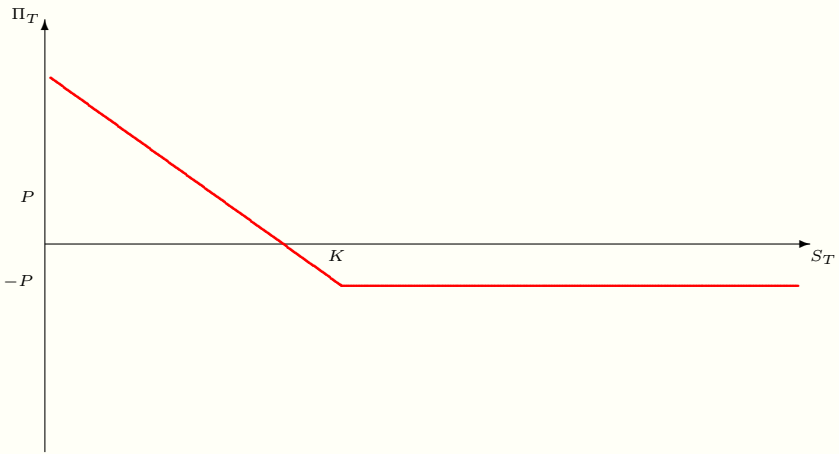

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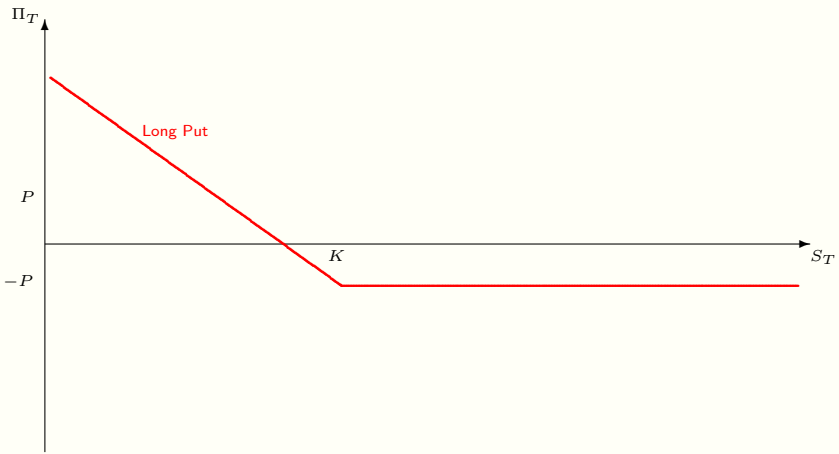

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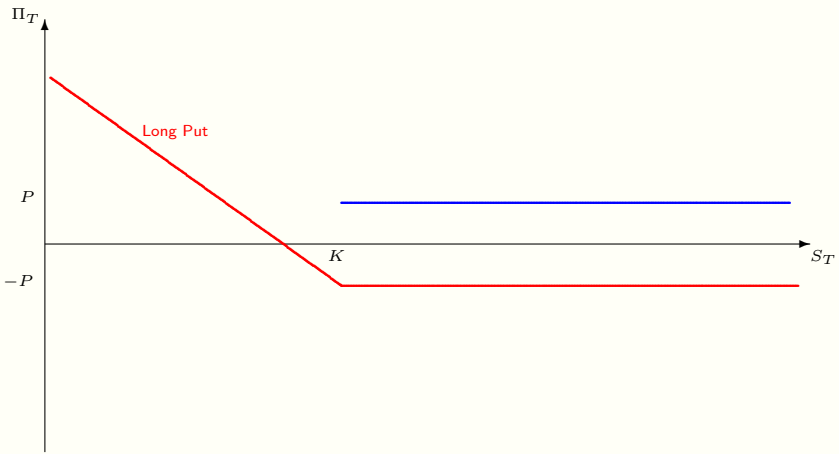

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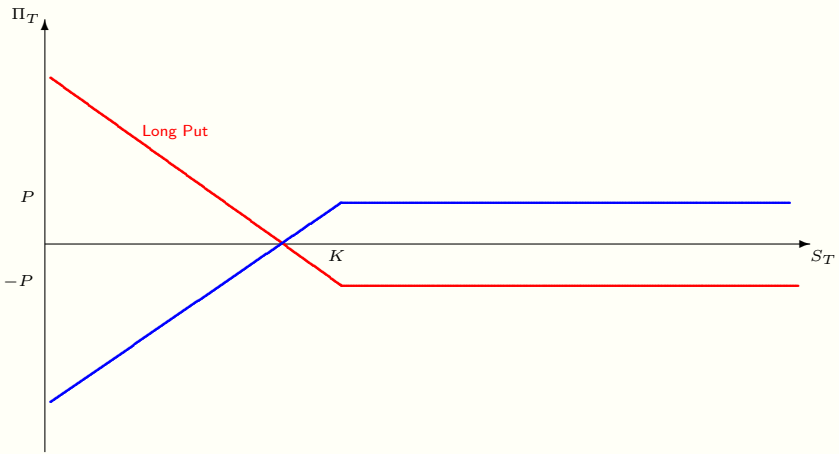

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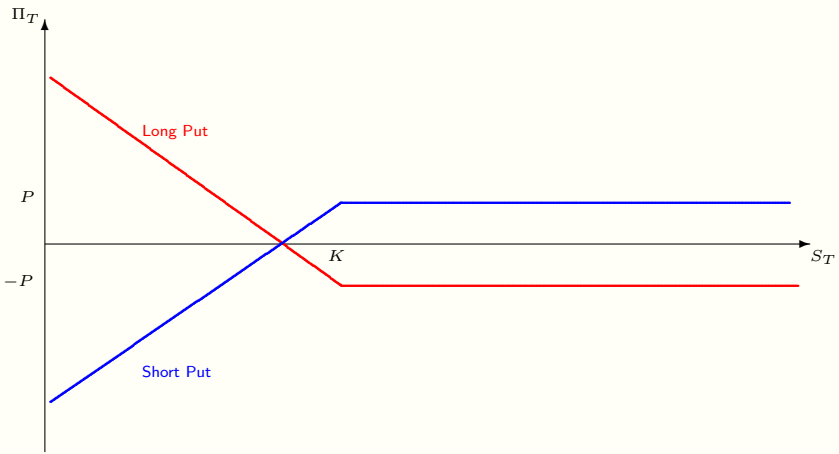

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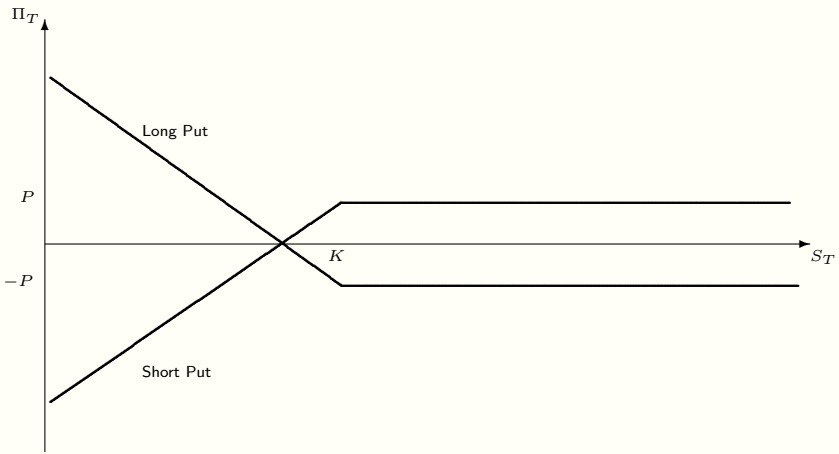

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Eliminating risks

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Hedging a long position in the underlying asset

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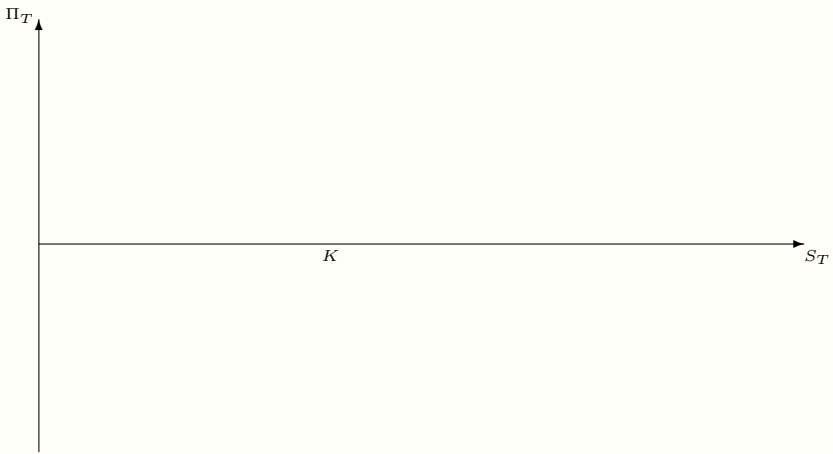

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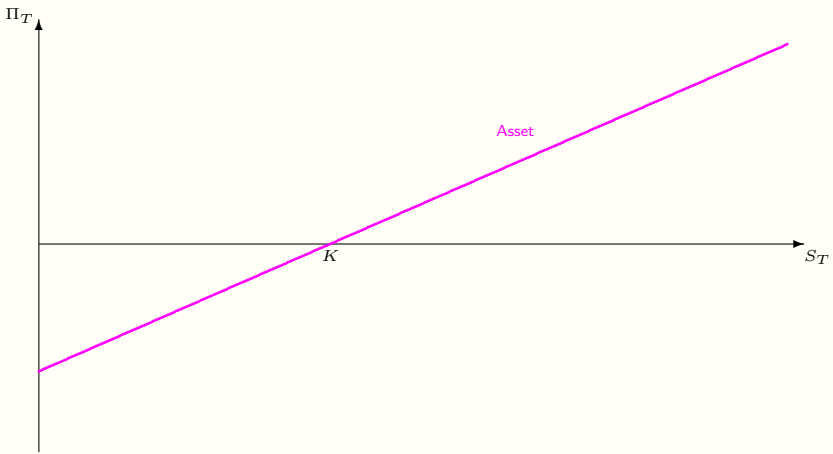

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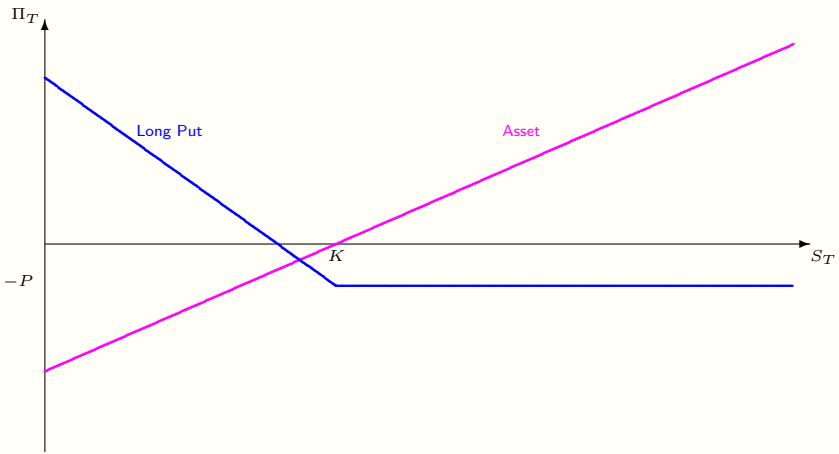

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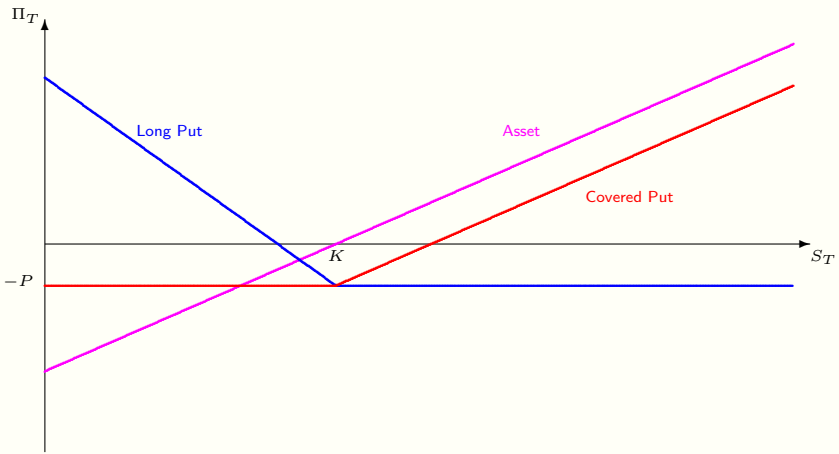

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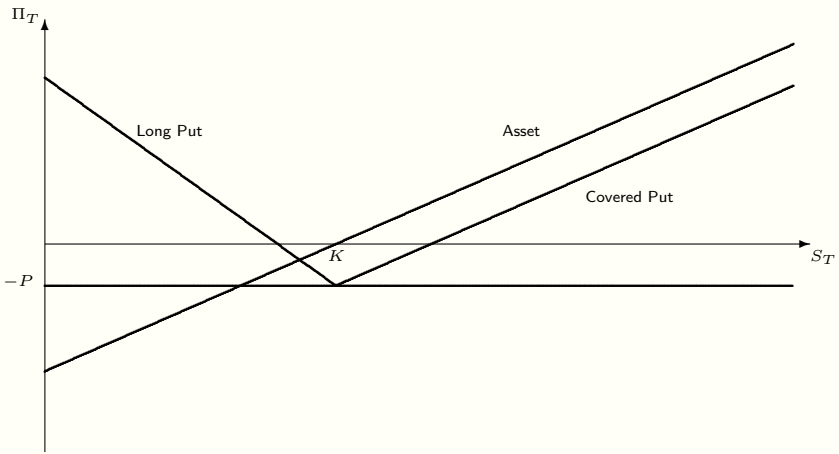

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Hedging a short position in the underlying asset

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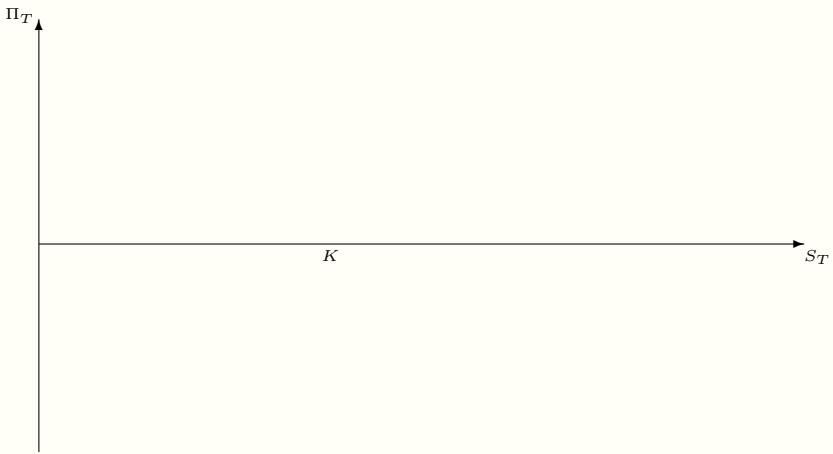

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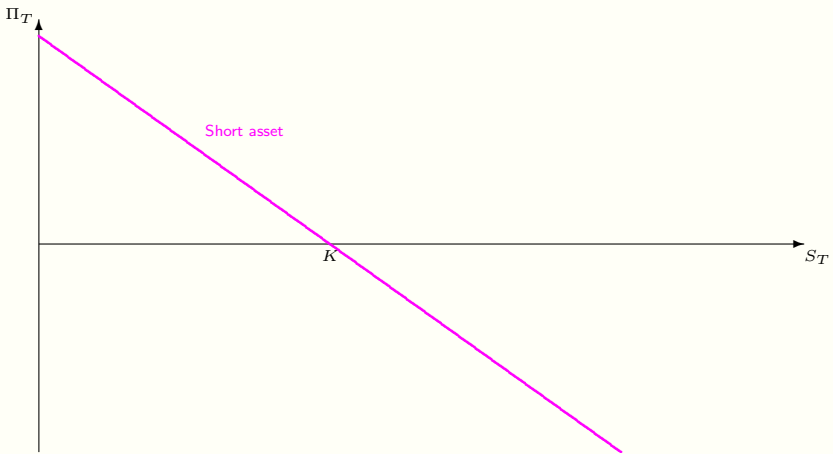

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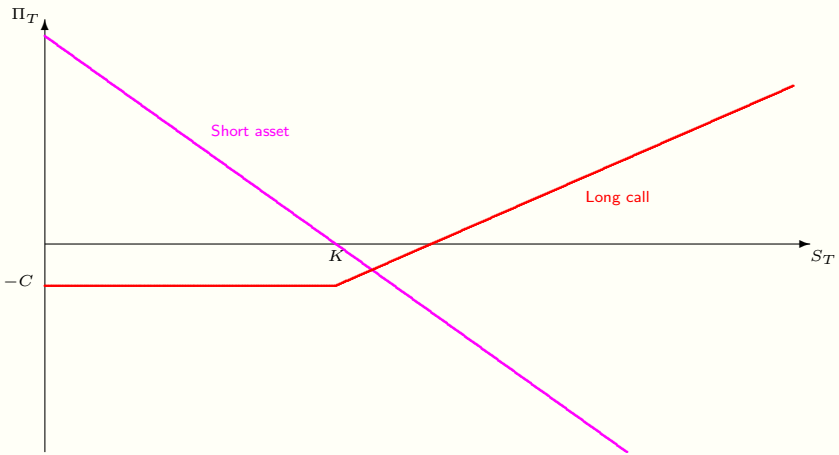

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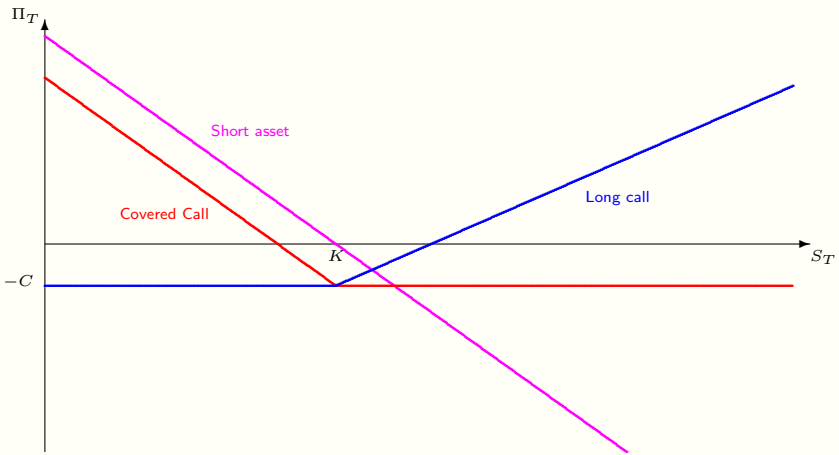

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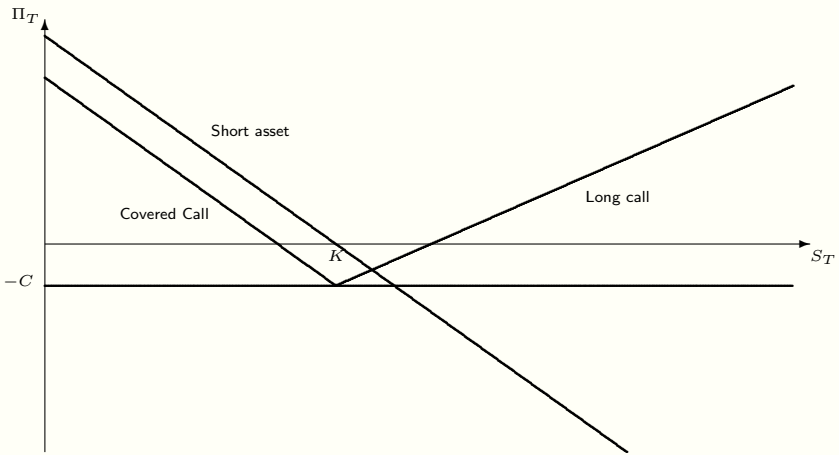

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Risk elimination only at maturity

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