

Classroom Session 1: Option Pricing

Week 1

Homework

Please complete this homework before the next class in this course. We will review the answers and the project at the beginning of the next class.

How are options prices determined on a daily basis?

- A. Using the Black-Scholes option pricing model
- B. Using the updated Black-Scholes-Merton model
- C. Using the binomial tree model
- D. By supply and demand

Which of these factors does not influence options' price?

- A. Current stock price
- B. Option strike price
- C. Time since option began trading
- D. Implied volatility

Which of these is not a use of the options' Delta?

- A. Estimate of the contract's likelihood of turning a profit
- B. Amount the premium will change after a \$1 move up in the underlying
- C. Estimate of the contract's likelihood of being in the money at expiration
- D. The option contracts "share equivalency"

If all else were equal, which of these values for Theta would an option seller prefer?

- A. -1.744
- B. -2.804
- C. -0.055



If you are a buyer of options, which direction would you like implied volatility to go?

- A. Down
- B. Nowhere
- C. Up

At what point should you determine your exit strategy?

- A. Before entering the position
- B. After you've earned the amount you set out to
- C. Before placing the closing trade
- D. When your outlook changes

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read [Characteristics and Risks of Standardized Options](#). Supporting documentation for any claims, if applicable, will be furnished upon request.

Any screenshots, charts, or company trading symbols mentioned are provided for illustrative purposes only and should not be considered an offer to sell, a solicitation of an offer to buy, or a recommendation for the security.

Greeks are mathematical calculations used to determine the effect of various factors on options.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

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