

# Primer: Options 101 Basic Concepts and Terminology

## What is an Option?

An option is a financial contract between a buyer (holder) and a seller (writer) that gives the buyer the right, but not the obligation, to buy or sell a specified amount of an underlying asset at a predetermined price within a set time frame.

Understanding the basics below provides the foundation for learning how options function in financial markets.



### Key Roles

- Buyer (Holder): Has rights under the contract.
- Seller (Writer): Has obligations under the contract.



### Types of Options

- Call Option: Gives the holder the right to buy the underlying asset.
- Put Option: Gives the holder the right to sell the underlying asset.



### Rights and Obligations

- A call buyer has the right to buy the underlying asset by exercising their option; the call seller has the obligation to sell the underlying asset if assigned an exercise.
- A put buyer has the right to sell the underlying asset by exercising their option; the put seller has the obligation to buy the underlying asset if assigned an exercise.



### Options Styles

- American-style: Can be exercised at any time prior to the option's expiration.
- European-style: Can only be exercised at expiration.



### Exercise and Assignment

- Exercise: When the option holder uses their right to buy (in the case of a call) or sell (in the case of a put) the underlying asset.
- Assignment: When the seller is obligated to fulfill the obligations of their options contract.



### Other Key Terms

- Exercise Price (Strike Price): The agreed-upon price at which the asset can be bought or sold.
- Premium: The price paid by the buyer to the seller for an option.
- Expiration Date: The last date the option can be exercised, after which the option contract ceases to exist.

Options involve risks and are not suitable for everyone. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, Characteristics and Risks of Standardized Options, available by visiting [OptionsEducation.org](https://www.optionseducation.org). To obtain a copy, contact your broker or The Options Industry Council at 125 S. Franklin St., Chicago, IL 60606. Individuals should not enter into options transactions until they have read and understood this document.