What is Option Trading?

An option is a contract that is written by a seller that conveys to the buyer the right — but not an obligation to buy (for a call option) or to sell (for a put option) a particular asset, at a specific price (strike price/exercise price) in future.

In return for granting the option, the seller collects a payment (known as a premium) from the buyer

Participants in Options

1. Buyer of an Option

The one who, by paying the premium, buys the right to exercise his option on the seller/writer.

2. Writer/seller of an Option

The one who receives the premium of the option and thus is obliged to sell/buy the asset if the buyer of the option exercises it.

Notable Terms in Options Trading:-

1. Premium

The price that the option buyer pays to the option seller is referred to as the option premium.

2. Expiry Date

The date specified in an option contract is known as the expiry date or the exercise date.

3. Strike Price

The price at which the contract is entered is the strike price or the exercise price.

Types of options

There are two types:

Call Option (CE): This gives you the right to buy an asset at a specific price at a certain date.

Put Option (PE): This gives you the right to sell an asset at a fixed price at a certain date.

Call and put options are used in different situations. A call option is preferred when prices are expected to increase. A put option is often chosen when prices are expected to fall.

You can buy or sell options if you believe a market's price will rise or fall.

Buy Call Option:- You can purchase an option to buy – known as a call option(CE) – if you think the market will rise.

Buy Put Option:- If you think the market will fall, you can purchase an option to sell – known as a put option(PE).

NOTE:- you can see option chain of nifty and bank nifty form

https://www.nseindia.com/option-chain

An **option** gives the buyer the right, but not the obligation, to buy (or sell) an asset at a specific price at any time during the life of the contract.

A **futures** contract obligates the buyer to purchase a specific asset, and the seller to sell and deliver that asset, at a specific future date.