

Section - 2

(b)

What is a Strike price ?

Strike price →

The strike price is the specified price at which an option contract can be exercised.

Strike price are fixed in the option contract. for call option, the option holder has the right to purchase the underlying stock at that price up to the expiration date.

for put option, the strike

price at which the underlying STK can be sold.

The strike price one of the most important elements of option pricing. At the expiration date, the difference b/w the STK's market price and the option's strike price represent the amt of profit gained by exercising the option.

For example ↓.

An investor purchase a call option contract on share of ABC company at a \$5 strike price.

Over the life of the option contract the holder has the right to exercise the option and purchase 100 shares of ABC for 500 \$