✍ 10.3. INSERT THE WORDS (change the word form if necessary):

an increase, to expire, a writer, an uncovered call, an underlying stock, expiration, an option, a holder, to deliver.

Covered call: A call **…** is sold in a stock already owned by the writer. This is an attempt to take advantage of a neutral or declining stock. If the option **…** unexercised, the writer keeps the premium. If the holder exercises the option, the stock must be **…**, but, because **…** already owns the stock, risk is limited. This is the opposite of **…**, when the writer sells a call for a stock that he does not already own, a very dangerous strategy with unlimited risk.

Married put: A put option is purchased on a stock owned by the writer. The strategy is an insurance policy that protects against a decline in the price of **…**. If the price declines, the stock can be sold at the higher price any time before **…**. Of course, if the stock price remains neutral or increases, the option is worthless and the premium is lost.

Synthetic put: A call option is purchased in a stock that the holder is already short on. **…** is able to protect against **…** in the price of the underlying stock.

✍ 10.4 INSERT THE PREPOSITIONS WHERE NECESSARY

An option **…** a given stock has three main components: an expiration date, a strike price and a premium. The expiration date tells the month **…** which the option will expire. Options expire one day **…** the third Friday **…** the expiration month. The strike price is the price **…** which the holder is allowed to buy or sell the underlying stock **…** a later date. The premium is amount that the holder must pay **…** the right to exercise the option. Because the holder acquires the right to trade 100 shares, the total cost **…** the option, if exercised, is 100 times the premium.

… order to relate them **…** the price **…** the underlying stock **…** any given time, options are classified as **…**-the-money, **…**-the-money or **…**-the-money. A call option is in-the-money when the stock price is **…** the strike price and out-of-the-money when the stock price is **…** the strike price. **…** put options, the reverse is true. When the stock price and strike price are equal, both types **…** options are considered at-the-money.

… course, when calculating profit and loss, the premium, as well as taxes and commissions must be factored **….** Therefore, an option must be far enough in-the-money to cover these costs **…** order to be profitable.

10.5 CHOOSE THE RIGHT VARIANT TO SUBSTITUTE THE UNDERLINED WORDS AND WORD COMBINATIONS

1. **Affecting the premium to a lesser degree are factors** such as interest rates, market conditions, and the dividend rate of the underlying stock.

factors affecting the premium to a lesser degree are

factors that affect the premium to a lesser degree

factors that can affect the premium to a lesser degree are

factors that are affecting the premium to a lesser degree

2. The price of an option is primarily affected by the time **remaining** for the option to be exercised

that remains

that is remaining

that will remain

that remained

3. **Because** the value of an option decreases as its expiration date approaches and becomes worthless after that date, options are considered "wasting assets".

as

since

hence

so

4. **Over time**, option prices approach their theoretical values.

eventually

casually

after the time

in course of time

5. The formula reveals the time value remaining in an option and **takes into account** the pricing factors listed above.

allows for

considers for

accounts about

accomodates at

6. Exercising an option **consists in** buying (in the case of a call option) or selling (in the case of a put option) 100 shares of the underlying stock at the strike price.

lies in

shows in

is put into

is in

7. The **total** value consists of intrinsic value, which is simply how far in-the-money an option is,

joint

entire

absolute

perfect

8. **Understandably**, time value approaches zero as the expiration date nears.

intelligibly

clearlly

intelligebly

naturaly

9. **In general**, premiums should increase as the volatility of the underlying stock increases.

all in all

all by all

all at all

all on all

10. Implied volatility is a **reflection** of the way options are being priced in general.

image

tint

hue

animadversion

11. Options are classified as American or European **depending on** the way in which the holder may exercise them.

according to

in accordance to

according with

in accord to

12. A European style option, **on the other hand**, cannot be exercised until expiration.

again

since

soon

then