

the same, options on more volatile interests command higher premiums than options on less volatile interests.

Time value is also influenced by the current cost of money. Increases in prevailing interest rates tend to cause higher premiums for calls and lower premiums for puts, and decreases in prevailing interest rates tend to cause lower premiums for calls and higher premiums for puts.

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The following is a description of the terminology applicable to capped options:

**CAP INTERVAL**—The cap interval is a constant established by the options market on which a series of capped options is traded. The exercise price for a capped-style option plus the cap interval (in the case of a call), or minus the cap interval (in the case of a put), equals the cap price for the option. For example, if a capped call option with an exercise price of 360 has a cap interval of 30, then the cap price at which the option will be automatically exercised would be 390.

**CAP PRICE**—The cap price is the level that the automatic exercise value of a capped option must reach in order for the option to be automatically exercised. The cap price of a call option is above, and of a put option below, the exercise price of the option.

**EXAMPLE:** A 360 ABC capped call index option has an exercise price of 360 and a cap interval of 30. The call option has a cap price of 390.

**EXAMPLE:** A 310 XYZ capped put index option has an exercise price of 310 and a cap interval of 20. The put option has a cap price of 290.

**AUTOMATIC EXERCISE VALUE**—The automatic exercise value of a capped option is the price or level of the underlying interest determined in a manner fixed by the options market on which the option is traded for each trading day as of a specified time of that day.

**EXAMPLE:** A 310 XYZ capped put index option has a cap interval of 20, and therefore has a cap price of 290. Assume that the options market on which the option is traded has specified the close of trading on each trading day as the time for determining the automatic exercise value on the XYZ index, and that the index level reaches a low of 289 during a particular trading day, but is at 291 at the close. The automatic