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Option on a Option (compound)

created by **Thijs van den Berg**

$$
\begin{aligned}
CC_T &= \max(C'_{T2,K2} - K, 0)\\
CP_T &= \max(P'_{T2,K2} - K, 0)\\
PC_T &= \max(K - C'_{T2,K2}, 0)\\
PP_T &= \max(K - P'_{T2,K2}, 0)
\end{aligned}
$$

A compound option is an option on an option. E.g. you can have the right to buy a call for 3.50 a some point of time in the future.

Symbol list:

CC_T	Value of the call on a call at expiration
CP_T	Value of the call on a put at expiration
$C'_{T2,K2}$	A call with time to expiration T2 and strike K2
K	The strike which is the price the underlying option can be bought for