

### QUESTION

Should the value (premium) of an option increase with the volatility of the price of the underlying asset?

### ANSWER

Yes, as increasing volatility means increasing risk or uncertainty in the price of the underlying asset. If you are the holder of a call option the more volatile the asset, the more valuable the stabilizing option will be for you. Likewise for the holder of a put option. Therefore you will pay more for the stability, hence the premium should be greater. Could argue also from issuers point of view.