



Put-call parity, explained

The equation that prices everything

Puts, calls, and stock must agree

Put-call parity is a relationship that has to hold: call minus put equals stock price minus the strike's present value. When it breaks, arbitrage desks pounce in milliseconds.

One price moves them all

This is why put and call prices move together. If calls get expensive, puts must follow. The math enforces it. You cannot have cheap puts and pricey calls on the same strike for long.

Build stocks out of options

Long a call plus short a put replicates owning 100 shares. Desks use parity to build synthetic stock positions, often cheaper than buying shares outright. Same exposure, better price.



Know the assumptions

Parity assumes European-style options and no dividends. American options and payouts bend the formula. The math is exact only inside its assumptions. Know them before trusting it.





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