

# Index

- $\sigma$ -algebra, 729
- Markov property, 164
- complement rule, 731
  
- absence of arbitrage, 25, 557
- abstract Bayes formula, 515
- accreting swap, 595
- adapted process, 148
- adjusted close price, 202, 677
- admissible portfolio strategy, 181
- affine model, 551
- affine PDE, 303, 551, 1022
- American
  - binary option
    - finite expiration, 506
    - perpetual, 506
  - forward contract, 508
  - option
    - call, 477, 487
    - dividend, 501, 504
    - finite expiration, 491
    - perpetual, 477
    - put, 477
- amortizing swap, 595
- annuity
  - measure, 630
  - numéraire, 629, 646
- annuity numéraire, 594
- approximation
  - gamma, 571
  - lognormal, 436
- arbitrage, 21
  - absence of, 25
  - continuous time, 181
  - discrete time, 56
  - opportunity, 22
  - price, 14, 39, 68, 78, 252
  
  - triangular, 21
- arithmetic average, 425
- Asian option, 425, 427
  - basket, 442
  - call, 425
  - dividends, 455
  - hedging, 455
- asset pricing
  - first theorem, 27
    - continuous time, 183, 599
    - discrete time, 67
  - second theorem, 33
    - continuous time, 186
    - discrete time, 68
- at the money, 57, 266
- attainable, 31, 37, 77, 186
  
- Bachelier model, 191, 229, 235, 267
- backward
  - induction, 86, 89
  - stochastic differential equation, 272
- Bank for International Settlements, 9
- Barone-Adesi & Whaley approximation, 498, 500, 981
- barrier
  - level, 369
- barrier forward contract, 394
  - down-and-in
    - long, 395, 939
  - down-and-out
    - long, 395, 940
  - up-and-in
    - long, 395, 935
  - up-and-out
    - long, 395, 937
- barrier option, 58, 365, 369
  - down-and-in

- call, 370, 383
- put, 370, 385
- down-and-out
  - call, 370, 379, 393
  - put, 370, 381
- in-out parity, 370
- up-and-in
  - call, 370, 385
  - put, 370, 386
- up-and-out
  - call, 370, 371
  - put, 370, 376
- basis point, 638
- basket option, 441
- BDT model, 580
- bear spread option, 265, 872
- Bermudan swaption, 637
- Bernoulli distribution, 742
- Bessel function, 549, 571
- BGM model, 611, 626
- binary
  - tree, 69
- binary option, 57, 117, 235, 269, 542, 790
  - American
    - finite expiration, 506
    - perpetual, 506
  - barrier, 396
- binomial
  - distribution, 742
- BIS, 9
- bisection method, 233, 319
- bizdays (R package), 222
- Black
  - (1976) formula, 628
  - caplet formula, 626
- Black-Derman-Toy model, 580
- Black-Scholes
  - calibration, 322
  - formula, 227, 232, 254, 528, 612
    - call options, 206, 627
    - put options, 214, 628
  - PDE, 204, 226, 233, 390, 393, 720
    - with jumps, 704
- bond
  - convertible, 26, 576
  - convexity, 581
  - corporate, 576
  - duration, 577, 581
  - immunization, 1025
  - ladder, 630
  - option, 540, 623, 1010
  - pricing
    - PDE, 559, 609
  - yield, 568
- zero-coupon, 555
- Borel-Cantelli Lemma, 175, 732
- boundary condition, 721
- break-even
  - rate, 594, 596
  - strike price, 46
- underlying asset price, 86, 220
- Brent, 10
- Bretton Woods, 512
- bridge model, 614
- Brownian
  - bridge, 170, 573
  - extrema, 356
  - motion, 131
    - geometric, 242
    - Lévy's construction, 138, 173, 849
    - series construction, 136, 139
- BSDE, 272
- bull spread option, 265, 872
- business time, 222
- butterfly option, 265, 874
- buy back guarantee, 7, 530
- buy limit, 462
- calendar time, 222
- call
  - level, 369
  - option, 8
  - price, 370, 376
  - spread collar option, 119
  - swaption, 634
- call-put parity, 215, 256, 272, 331, 528, 946
- callable
  - bear contract, 59, 369–371
  - bull contract, 370, 376
- Cantor function, 341
- cap pricing, 629
- Capital Asset Pricing Model (CAPM), 274, 896
- caplet pricing, 625
- cash settlement, 8, 56, 213
- cash-or-nothing option, 57, 542
- cattle futures, 206
- Cauchy
  - distribution, 739
  - sequence, 833
- CBBC, 59, 369–371, 376
  - rebate, 394
  - residual, 394
  - Type N, 370
  - Type R, 370, 394
- CBOE, 548
  - Volatility Index<sup>®</sup>, 332

- CEV model, 550
- change of measure, 248
- change of numéraire, 514, 528
- characteristic
  - function, 754
- Chasles relation, 155
- Chi square distribution, 268, 548, 883
- Chicago Board Options Exchange, 548
- chooser option, 271, 888
- CIR model, 171, 229, 268, 548, 575
- CKLS model, 574
- Clark-Ocone formula, 100, 417
- collar option, 10
  - call spread, 119
  - costless, 12
  - put spread, 118
- complete market, 33, 38, 251
- complete space, 146, 153
- completeness
  - continuous time, 186
  - discrete time, 68
- compound Poisson
  - martingale, 689
  - process, 660, 692, 701
- compounded yield to maturity, 581
- compounding
  - linear, 592
- conditional
  - expectation, 60, 747, 756
  - probability, 733
- conditioning, 733
- constant repayment, 48
- contingent claim, 30, 56, 68, 77
  - attainable, 31, 37, 186
- continuous-time
  - limit, 110
- conversion rate, 576
- convertible bond, 26, 576
- convexity, 581
- corporate bond, 576
- correlation
  - perfect, 608, 617
  - problem, 607
- cost of carry, 525
- costless collar option, 12
- counterparty risk, 89
- counting process, 653, 655
- coupon
  - bond, 557
  - rate, 566
- Courtadon model, 550, 575
- Cox process, 657
- Cox-Ingersoll-Ross model, 171
- Cox-Ross-Rubinstein model, 69, 208
- credit exposure, 89
- critical price, 500
- CRR model, 69, 208
- cumulant, 666
- cumulative distribution function, 738
  - joint, 366, 740
- cup & handle, 1
- date
  - of payment, 230
  - of record, 230
- deflated price, 514
- Delta, 90, 92, 204, 209–211, 216, 218, 232, 236, 261, 874
  - hedging, 260, 535, 537
- density
  - function, 737
  - marginal, 367, 741
- derivatives
  - fixed income, 619
  - interest rate, 619
  - market, 9
- differential inequalities, 484
- differential interest rate, 274
- diffusion
  - elasticity, 550, 575
- digital option, 57, 117, 235, 269, 542, 790
- discounting, 55, 179
  - lemma, 189, 251
- discrete distribution, 742
- dispersion index, 571, 656
- distribution
  - Bernoulli, 742
  - binomial, 742
  - Cauchy, 739
  - discrete, 742
  - exponential, 739
  - gamma, 739
  - Gaussian, 738
  - geometric, 743
  - Hartman-Watson, 433
  - invariant, 301, 309, 547, 550
  - lognormal, 108, 196, 436, 570, 739, 870
  - marginal, 750
  - negative binomial, 743
  - Pascal, 743
  - Poisson, 743
  - stable, 701
  - stationary, 301, 309, 547, 550
  - uniform, 738
- dividend, 115, 123, 230, 266, 455, 501, 504
  - date of payment, 230
  - date of record, 230
  - ex-date, 230

- payable date, 230
- dollar value, 581
- dominated convergence theorem, 480, 489
- Doob-Meyer decomposition, 475
- Dothan model, 550, 568
- drawdown option, 424
- drawdown process, 397
- drift estimation, 315
- drifted Brownian motion, 245
- Dupire PDE, 328
- duration, 577, 581
  
- early exercise premium, 485
- ECB, 590
- effective gearing, 92, 220
- efficient market hypothesis, 1, 66
- elasticity of diffusion, 550, 575
- elasticity, 220
- enewal processes, 660
- entitlement ratio, 9, 211, 217, 324–326
- equivalent probability measure, 27, 34, 67, 183, 250
- Esscher transform, 716
- ETF, 275
- Euclidean path integral, 573
- Euler discretization, 724
- EURIBOR, 592
- European option
  - knock-in, 396
  - knock-out, 396
- event, 729
- ex-dividend, 230, 455
- exchange option, 504, 531
- exchange-traded fund, 275
- exercise price, 6
- exotic option, 58, 83, 258, 365
  - Asian, 425
    - continuous time, 365, 397, 425
    - discrete time, 98
    - lookback option, 397
- expectation, 744
  - conditional, 747, 756
- exponential
  - Vasicek model, 550
- exponential distribution, 658, 739
- exponential Lévy model, 707
- exponential Vasicek model, 171, 821
- extrinsic value, 85, 219
  
- face value, 556, 581
- Fano factor, 571
- Fatou's lemma, 241, 465, 733
- FED, 592
- Feller condition, 549
  
- filtration, 61, 133, 457
- finite differences
  - explicit scheme, 718, 720
  - implicit scheme, 719, 722
- first theorem of asset pricing, 27, 67, 183, 599
- fixed
  - income, 545
  - derivatives, 619
  - leg, 594
  - rate, 625
- floating
  - leg, 594
  - rate, 625
  - strike, 59
- floored, 628, 639
- fOptions (R package), 498, 929, 981
- foreign exchange, 523
  - option, 526
- foreign exchange option, 199
- formula
  - Lévy-Khintchine, 666
  - smoothing, 667
  - Tanaka, 172, 200, 829, 848
  - Taylor, 866
- forward
  - contract, 120, 205, 233, 254, 540, 583, 860, 1007
    - American, 508, 998
    - non-deliverable, 206
  - measure, 577, 620
  - price, 514
  - rate, 583
    - agreement, 583
    - spot, 583–585, 625
    - swap, 593
  - start option, 266
  - swap rate, 593
- forward swap
  - measure, 630
- four-way zero-collar option, 10
- Fourier
  - synthesis, 139
  - transform, 303
  - inversion, 303
- FRA, 583
- Fubini theorem, 669
- fugazi (the), 318
- future contract, 206, 795
- FX option, 199
  
- gains process, 82
- Galton board, 107
- Gamma, 218

- gamma
  - approximation, 571
  - distribution, 739
  - function, 739
  - Greek, 211
  - process, 675
- gap, 697
- Garman-Kohlagen formula, 526
- Gaussian
  - cumulative distribution function, 112, 624
  - distribution, 207, 738
  - random variable, 755
- gearing, 86, 220
  - effective, 92, 220
- Geman-Yor method, 435
- generating function, 171, 754
- geometric
  - average, 427, 453
  - Brownian motion, 192, 242
  - distribution, 743
- Girsanov Theorem, 248, 274, 520
  - jump processes, 683, 702
- Greeks, 218
  - Delta, 204, 209–211, 216, 218, 232, 236, 261, 874
  - Gamma, 211, 218
  - Rho, 218
  - Theta, 218, 236, 271, 888
  - Vega, 218, 236, 396, 943
- gross market value, 9
- gross world product, 5, 9
- guarantee
  - buy back, 7, 530
  - price lock, 9
- GWP, 5
- Hartman-Watson distribution, 433
- Hawaiian option, 426
- heat
  - equation, 222, 717
  - map, 348
- hedge and forget, 205, 795, 1008, 1078
- hedge ratio, 93, 220
- hedging, 32, 88, 90, 98, 258
  - change of numéraire, 534
  - mean-variance, 710
  - quantile, 277
  - static, 205, 795, 1008, 1078
  - strategy, 259
  - with jumps, 710
- Heston model, 288, 312
- hexanomial model, 811
- HIBOR, 592
- historical
  - probability measure, 246
  - volatility, 289, 315
- hitting
  - time, 461
- HJM
  - condition, 599
  - model, 597
- Ho-Lee model, 551
- Hull-White model, 551, 598
- immunization, 1025
- implied
  - probability, 16
  - volatility, 318
- in the money, 57, 325, 783
- in-out parity, 370, 946
- independence, 733, 735, 737, 741, 743, 748, 755, 759
- independent increments, 240, 685, 686
- indicator function, 736
- infimum, 743
- infinitesimal, 157
- information flow, 62
- instantaneous forward rate, 586
- interest rate
  - derivatives, 619
  - differential, 274
- model
  - affine, 551
  - Constant Elasticity of Variance, 550
  - Courtadon, 550, 575
  - Cox-Ingersoll-Ross, 229, 268, 548
  - Dothan, 550, 568
  - exponential Vasicek, 171, 550, 821
  - Ho-Lee, 551
  - Hull-White, 551, 598
  - Marsh-Rosenfeld, 550, 575
  - Vasicek, 546, 551
- intrinsic value, 40, 85, 219
- invariant distribution, 301, 309, 547, 550
- inverse Gaussian process, 676
- IPython notebook, 14, 69, 84, 87, 90, 95, 97, 128, 138, 139, 207, 233, 319, 500, 604, 810
- Itô
  - formula, 159, 268
  - pathwise, 671
  - with jumps, 672
- isometry, 141, 145, 151, 668
- process, 158, 160, 203, 862
- stochastic integral, 141, 150, 151, 239
- table, 162, 401
  - with jumps, 673

- Jamshidian's trick, 640
- Jensen's inequality, 119, 241, 428, 460, 794, 871, 966
- joint
  - cumulative distribution function, 366, 740
  - probability density function, 740
- jump-diffusion process, 697
- knock-in option, 396
- knock-out option, 58, 370, 396
- Kullback-Leibler entropy, 703
- kurtosis, 700
- Lévy
  - construction of Brownian motion, 138, 173, 849
  - process, 675
- Lévy-Khintchine formula, 666
- Lagrangian, 572
- Laplace transform, 435, 474
- law
  - of total expectation, 750
  - of total probability, 731, 734, 750
- least square Monte Carlo, 497
- least square regression, 552
- leg
  - fixed, 594
  - floating, 594
- Leibniz integral rule, 599
- lemma
  - Neyman-Pearson, 277
- leverage, 198, 237, 275, 867, 896
- liability, 13
- LIBOR
  - model, 592
  - rate, 592
  - swap rate, 594, 632, 635
- Lipschitz function, 531
- local
  - time, 173
  - volatility, 326, 720
- log
  - contract, 234, 267, 313
  - option, 279
  - return, 316
    - dynamics, 192, 708
    - variance, 108, 196, 286
- log variance, 196
- lognormal
  - approximation, 436
  - distribution, 108, 196, 570, 739, 870
- long forward contract, 714, 715
- lookback option, 397
- call, 406
- put, 397, 400
- LSM, 497
- Macaulay duration, 581
- Mandatory Call Event, 394
- marginal
  - density, 367, 741
  - distribution, 750
- Margrabe formula, 532
- mark to market, 39, 68, 78, 206, 252, 795
- market
  - completeness, 33, 38, 68
  - making, 39
  - price of risk, 244, 250, 307, 559
  - volatility, 307
- market terms and data, 85, 218
- Markov property, 531, 535
- Marsh-Rosenfeld model, 550, 575
- martingale, 60, 134, 239, 458
  - compound Poisson, 689
  - continuous time, 182
  - discrete time, 63
- measure
  - continuous time, 181, 701
  - discrete time, 66
- method, 250
  - Poisson, 685, 686
  - submartingale, 458
  - supermartingale, 458
  - transform, 64, 82, 240, 463
- maturity, 6
  - transformation, 584
- maximum of Brownian motion, 339
- MCE, 394
- mean
  - hitting time, 472
  - reversion, 546
- mean-square distance, 758
- measurability, 148
- Merton model, 709
- method
  - bisection, 319
  - Newton-Raphson, 319
- Milshtein discretization, 725
- Minkowski inequality, 145, 146
- model
  - affine, 551
  - Bachelier, 191, 229, 235, 267
  - Barone-Adesi & Whaley, 500
  - BDT, 580
  - binomial, 69
  - CEV, 550
  - CIR, 548, 575

- CKLS, 574
- Courtadon, 550, 575
- Dothan, 550, 568
- exponential Vasicek model, 550
- hexanomial, 811
- Ho-Lee, 551
- Hull-White, 551, 598
- Marsh-Rosenfeld, 550, 575
- pentanomial, 811
- trinomial, 74, 112, 125
- Vasicek, 546, 551
- modified
  - Bessel function, 549, 571
  - duration, 581
- moment
  - generating function, 754, 1071
- moneyiness, 57
- moving average, 426
- MPoR, 244, 250, 307, 559
- Musiela notation, 597
- natural logarithm, 207
- negative
  - binomial distribution, 743
  - inverse Gaussian process, 677
  - premium, 27
  - risk premium, 182
- Nelson-Siegel, 603, 606
- Newton-Raphson method, 319
- Neyman-Pearson Lemma, 277
- nominal value, 581
- non-deliverable forward contract, 206
- noncentral Chi square, 268, 548, 883
- nonlocal operator, 707
- notional, 595
  - principal, 638, 1044, 1045
- notional amount, 9
- numéraire, 182, 511
  - annuity, 594, 629
  - invariance, 534
- numéraire invariance, 535
- OLS, 552
- opening jump, 697
- optimal stopping, 492
- option
  - Asian, 425
    - basket, 442
    - call, 425
  - at the money, 266
  - barrier, 58, 365
  - basket, 441
  - bear spread, 265, 872
  - binary, 57, 117, 542, 790
  - bull spread, 265, 872
  - butterfly, 265, 874
  - cash-or-nothing, 57, 542
  - chooser, 271, 888
  - digital, 57, 117, 542, 790
  - drawdown, 424
  - effective gearing, 92, 220
  - exotic, 58, 83, 98, 258, 365, 397, 425
  - extrinsic value, 85, 219
  - foreign exchange, 199
  - forward start, 266
  - gearing, 86, 220
  - Hawaiian, 426
  - intrinsic value, 85, 219
  - issuer, 14, 32
  - knock-out, 58, 370
  - lookback, 397
    - on average, 58, 264, 425, 454
    - on extrema, 366
    - out of the money, 270
    - path-dependent, 98, 258
    - power, 120, 191, 232, 267, 796
    - premium, 32, 86, 221
    - straddle, 892
    - tunnel, 112, 114
    - vanilla, 204
    - variance call, 293
    - variance swap, 290
    - volatility swap, 295
    - writer, 14, 32
    - zero-collar, 10
- optional
  - sampling, 462
  - stopping, 462
- order book, 851
- Ornstein-Uhlenbeck process, 546
- out of the money, 57, 270
- Paley-Wiener series, 139
- par value, 556, 581
- parity
  - call-put, 215, 256, 272, 331, 528, 946
  - in-out, 370, 946
- Partial integro-differential equation, 705
- partition, 734, 756
- Pascal distribution, 743
- path
  - freezing, 641
  - integral, 85, 366, 517, 571
    - Euclidean, 573
  - path-dependent option, 98, 258
  - pathwise Itô formula, 671
  - payable date, 230
  - payer

- swap, 594
- swaption, 631
- payoff function, 7, 9, 365
- PDE
  - affine, 303, 551, 1022
  - Black-Scholes, 204, 226
  - Heston, 301
  - integro-differential, 705
  - variational, 495
- pentanomial model, 811
- perfect correlation, 608, 617
- physical delivery, 8, 56, 213
- PIDE, 705
- Planck constant, 572
- Poisson
  - compound martingale, 660, 701
  - distribution, 743
  - process, 653
  - compound, 692
- portfolio, 20
  - process, 82
  - replicating, 90, 95
  - strategy, 31, 50, 77, 184, 187
    - admissible, 181, 186
    - update, 184, 187
    - value, 54, 78
- power option, 120, 191, 232, 267, 796
- predictable process, 64, 81, 667
- premium
  - early exercise, 485
  - negative, 27
  - option, 86, 221
  - risk, 27, 182, 244
- price
  - critical, 500
  - graph, 6, 8, 10, 118, 791, 793
- price lock guarantee, 9
- pricing, 77, 83
  - with jumps, 703
- principal amount, 638
- probability
  - conditional, 733
  - density function, 737
    - joint, 740
  - distribution, 737
  - measure, 731
    - equivalent, 27, 34, 67, 183, 250
  - sample space, 727
  - space, 732
- process
  - counting, 653
  - Cox, 657
  - drawdown, 397
  - gamma, 675
  - inverse Gaussian, 675
  - Lévy, 675
  - predictable, 64, 81, 667
  - stable, 675
  - stopped, 462
  - variance gamma, 675
- pushforward measure, 689
- put
  - option, 6
    - spread collar option, 118
  - swaption, 636
- Python code, 14, 69, 84, 87, 90, 95, 97, 128, 138, 139, 207, 233, 319, 500, 604, 810
- Python package
  - yfinance, 322
- quantile hedging, 277
- Quantlib, 637
- quantmod, 202, 316, 470, 554, 590, 677, 697
- R code, 10, 137, 138, 140, 143, 149, 165–167, 189, 193, 196, 202, 207, 210, 215, 221, 230, 231, 233, 247, 300, 319, 320, 331, 334, 335, 370, 376, 379, 381, 470, 547, 549, 565, 590, 637, 659, 660, 662, 675, 677, 686, 745, 748, 930, 981
- R package
  - bizdays, 222
  - fOptions, 498, 929, 981
  - quantmod, 202, 316, 470, 554, 590, 677, 697
  - RQuantLib, 637
  - YieldCurve, 590
- Radon-Nikodym, 248
- random
  - product, 752
  - sum, 752
  - variable, 735
- rate
  - forward, 583
  - forward swap, 593
  - instantaneous forward, 586
  - LIBOR, 592, 595
    - swap, 594
  - LIBOR swap, 632, 635
    - swap, 593
- realized variance, 289, 316
  - swap, 290
- rebate, 370, 371, 376
- receiver swaption, 636
- reflection principle, 365



- relative entropy, 703
- replicating portfolio, 90, 95
- replication, 32
- residual, 370, 371, 376
- return
  - log, 316
- Rho, 218
- Riccati equation, 564, 1027
- risk
  - counterparty, 89
  - market price, 244, 250, 307, 559
  - premium, 27, 182
- risk premium, 244
- risk-neutral measure, 15, 27, 701
  - continuous time, 181, 244
  - discrete time, 66
- riskless asset, 112, 186
- RQuantLib, 637
- running maximum, 339, 340
  
- SABR model, 312
- second theorem of asset pricing, 33, 68, 186
- self-financing portfolio
  - change of numéraire, 535
  - continuous time, 184, 185, 187, 188, 710
  - discrete time, 52, 78
- sell stop, 462
- seller swap, 594
- share right, 26
- Sharpe ratio, 250
- SHIBOR, 592
- short selling, 37, 93, 212
  - ratio, 21
- SIBOR, 592
- singular measure, 402
- skewness, 700
- slow-fast system, 307
- smile, 320
- smoothing formula, 667
- spline function, 331
- spot forward rate, 583–585, 625
- square-integrable
  - functions, 143
  - random variables, 144
- St. Petersburg paradox, 746
- stability warrant, 396
- stable
  - distribution, 701
  - process, 677
- static hedging, 205, 795, 1008, 1078
- stationary distribution, 301, 309, 547, 550
- stochastic
  - calculus, 156
  - differential equations, 164
  - integral, 80, 139, 148
    - with jumps, 666
  - integral decomposition, 100, 169, 258, 260
    - process, 50
  - stop-loss/start-gain strategy, 199
  - stopped process, 462
  - stopping time, 460
    - theorem, 463
  - straddle option, 892
  - Stratonovich integral, 837
  - strike price, 6, 31
    - floating, 59
  - string model, 617
  - strong Markov property, 658
  - submartingale, 458
  - super-hedging, 32, 68
  - supermartingale, 458
  - Svensson parametrization, 603
  - swap, 593
    - amortizing, 595
    - measure, 514, 630, 647, 649
    - payer, 594
    - rate, 593, 595
    - seller, 594
    - variance, 290
  - swaption, 631
    - Bermudan, 637
  
- Tanaka formula, 172, 200, 829, 848
- Taylor's formula, 157, 866
- telescoping sum, 596
- tenor structure, 513, 594, 619
- terms and data, 85, 218
- ternary tree, 74, 112, 125
- theorem
  - asset pricing, 27, 33, 67, 68, 183, 186, 599
  - dominated convergence, 480, 489
  - Fubini, 669
  - Girsanov, 248, 274, 520, 683, 702
  - stopping time, 463
- Theta, 218, 236, 271, 888
- TIBOR, 592
- time
  - business, 222
  - splitting, 199, 269, 847
- tower property, 63, 65, 81, 82, 87, 153, 239, 241, 260, 263, 515, 559, 750, 754, 759, 776, 809
- transform
  - Esscher, 716
  - Fourier, 303

- Laplace, 435, 474
- martingale, 64, 82, 463
- treasury note, 548
- tree
  - binary, 69
  - ternary, 74, 112, 125
- trend estimation, 315
- triangle inequality, 146
- triangular arbitrage, 21
- trinomial model, 74, 112, 125
- tunnel option, 112, 114
- turbo warrant, 59, 369–371, 376
- two-factor model, 609
- Type N CBBC, 370
- Type R CBBC, 370, 394
  
- uniform distribution, 738
  
- valuation period, 394
- vanilla option, 60, 83, 204
- variable rate, 625
- variance, 751
  - call option, 293
  - gamma process, 676
  - realized, 289, 316
  - swap, 290
- variational PDE, 484, 495
- Vasicek model, 546, 551
- Vega, 218, 236, 396, 943
  - notional, 290
- VIX<sup>®</sup>, 332
  
- volatility
  - historical, 289, 315
  - implied, 318
  - level, 290
  - local, 326, 720
  - smile, 320
  - surface, 322
  - swap, 295
  - variance swap, 290
  
- warrant, 9, 211
  - stability, 396
  - terms and data, 221
  - turbo, 59, 369–371, 376
- West Texas Intermediate (WTI), 5, 10
- Wiener space, 2
  
- yfinance (Python package), 322
- yield, 583, 585, 625
  - bond, 568
  - compounded to maturity, 581
  - curve, 584
  - data, 590
  - inversion, 591
- YieldCurve (R package), 590
  
- zero measure, 341
- zero-
  - collar option, 10
  - coupon bond, 555

## Author index

- Achdou, Y. 331  
 Albanese, C. 288, 549  
 Albrecher, H. 303  
 Allegretto, J. 498  
 Applebaum, D. 675  
 Aristotle 5  
 Attari, M. 303
- Bachelier, L. 2, 139  
 Barone-Adesi, G. 498, 500  
 Barrieu, P. 433  
 Benth, F.E. 442  
 Bermin, H. 417  
 Björk, T. 41, 606  
 Black, F. 3, 186, 201, 580, 626, 628  
 Bosq, D. 655  
 Boulding, K.E. 187, 512  
 Brace, A. 4, 611  
 Breeden, D.T. 327  
 Brémaud, P. 667  
 Brigo, D. 562, 610, 1023  
 Brown, R. 1  
 Burdzy, K. 340
- Carr, P. 292, 312, 434, 435  
 Chan, C.M. 59, 370  
 Chan, K.C. 574  
 Charpentier, A. 590  
 Çinlar, E. 737  
 Cont, R. 665, 675, 682, 688, 697, 713  
 Courtadon, G. 550, 575  
 Cox, J.C. 69, 229, 268, 548  
 Crépey, S. 426  
 Curran, M. 440
- Da Fonseca, J. 311  
 Dahl, L. O. 442  
 Dana, R.A. 409
- Dash, J. 517  
 Dassios, A. 423  
 Deelstra, G. 442  
 Demeterfi, K. 313  
 Denson, N. 540  
 Derman, E. 313, 328, 580  
 Devore, J.L. 727  
 Di Nunno, G. 98, 258, 713  
 Diallo, I. 442  
 Doob, J.L. 458, 462, 475  
 Dothan, L.U. 550, 568  
 Downes, A. 540  
 Dudley, R.M. 146  
 Dufresne, D. 432, 435  
 Dupire, B. 328  
 Dvoretzky, A. 340
- Einstein, A. 2  
 El Karoui, N. 514, 534  
 El Khatib, Y. 417, 420  
 Elliott, R.J. 485, 495, 498  
 Erdos, P. 340  
 Eriksson, J. 59, 370  
 Ewald, C.-O. 455
- Faff, R. 1017  
 Feller, W. 288, 549, 883  
 Folland, G.B. 135  
 Föllmer, H. 98, 277  
 Fouque, J.-P. 288, 307  
 Friz, P. 332
- Galton, F. 107  
 Gao, M. 311  
 Garman, M.B. 526  
 Gatarek, D. 4, 611  
 Gatheral, J. 307, 311, 332  
 Geman, H. 431, 435, 514, 534, 963  
 Gerber, H.U. 504, 716

- Glasserman, P. 724  
 Gray, P. 1017  
 Guirrieri, S. 590  
  
 Hagan, P.S. 289, 337, 914  
 Han, J. 311  
 Harrison, J.M. 68, 183, 186  
 Heath, D. 4, 599  
 Heston, S.L. 288, 303  
 Hiriart-Urruty, J.-B. 30  
 Hirsch, F. 144  
 Ho, S.Y. 551  
 Hull, J. 551  
  
 Ikeda, N. 151, 241  
 Ingersoll, J.E. 229, 268, 548  
 Itô, K. 3  
  
 Jacka, S.D. 496  
 Jacod, J. 727  
 Jaillet, P. 495  
 Jamshidian, F. 534, 623, 640  
 Jarrow, R. 4, 599  
 Jeanblanc, M. 409, 713  
 Joshi, M.S. 540  
  
 Kakushadze, Z. 573  
 Kakutani, S. 340  
 Kallenberg, O. 760  
 Kamal, M. 313  
 Kani, I. 328  
 Karolyi, G.A. 574  
 Kemna, A.G.Z. 428  
 Kim, Y.-J. 625  
 Klebaner, F. 276, 897  
 Klebaner, F.C. 973  
 Kloeden, P.E. 165  
 Kohlhagen, S.W. 526  
 Kopp, P.E. 485, 495  
 Korn, E. 724  
 Korn, R. 724  
 Kreps, D.M. 68  
 Kroisandt, G. 724  
 Kumar, D. 289, 337, 914  
  
 Lacombe, G. 144  
  
 1098  
  
 Lambertson, D. 98, 445, 495  
 Lapeyre, B. 445, 495  
 Lawi, S. 288, 549  
 Lee, R. 292, 312  
 Lee, S.B. 551  
 Lemaréchal, C. 30  
 Lesniewski, A.S. 289, 337, 914  
 Leukert, P. 277  
 Leung, T. 237  
 Levy, E. 436  
 Li, Y. 311  
 Liinev, J. 442  
 Lim, J.W. 423  
 Lindström, E. 1019  
 Lipton, A. 199  
 Litzenberger, R.h. 327  
 Longstaff, F.A. 497, 499, 574  
 Lyuu, Y.D. 368  
  
 Mamon, R.S. 1033  
 Margrabe, W. 532  
 Marsh, T.A. 550, 575  
 Martini, C. 311  
 Matsumoto, H. 432  
 Mayer, P. A. 303  
 Mel-nikov, A.V. 277  
 Menkens, O. 455  
 Mercurio, F. 562, 610, 1023  
 Merton, R.C. 4, 533  
 Meyer, P.A. 475  
 Mikosch, T. 837  
 Milevsky, M.A. 442  
 Milne, J.S. 1083  
 Mörters, P. 341  
 Morton, A. 4, 599  
 Musiela, M. 4, 597, 611  
  
 Nechaev, M.L. 277  
 Neuberger, A. 313  
 Nguyen, H.T. 655  
 Nikodym, O.M. 248  
 Norris, J.R. 658  
 Novikov, A. 248  
  
 Øksendal, B. 98, 258, 675, 713

- Paley, R. 139  
 Papanicolaou, A. 288, 332  
 Papanicolaou, G. 288, 307  
 Peng, S. 272  
 Peres, Y. 341  
 Persson, J. 59, 370  
 Pintoux, C. 569, 570  
 Pironneau, O. 331  
 Pitman, J. 727  
 Platen, E. 165  
 Pliska, S.R. 183, 186  
 Poisson, S.D. 653  
 Prayoga, A. 291, 571  
 Profeta, C. 351  
 Proske, F. 98, 258, 713  
 Protter, P. 159, 164, 248, 260, 520, 531, 535, 559, 560, 727  
  
 Radon, J. 248  
 Rebonato, R. 289  
 Revuz, D. 135  
 Rochet, J.-C. 514, 534  
 Rogers, C. 447  
 Rosenfeld, E.R. 550, 575  
 Ross, S.A. 69, 229, 268, 548  
 Rouah, F.D. 303  
 Rouault, A. 433  
 Roynette, B. 351  
 Rubinstein, M. 69  
 Rudin, W. 143, 144  
 Ruiz de Chávez, J. 98  
  
 Samuelson, P.A. 3  
 Sanders, A.B. 574  
 Santa-Clara, P. 617  
 Sato, K. 689  
 Schied, A. 28, 33, 68, 98, 110  
 Schoenmakers, J. 636, 637  
 Scholes, M. 3, 4, 186, 201  
 Schoutens, W. 303  
 Schröder, M. 434, 435  
 Schwartz, E.S. 497, 499  
 Scorsese, M. 318  
 She, Q.H. 311  
 Shi, Z. 447  
  
 Shiryaev, A.N. 183, 186  
 Shiu, E.S.W. 504, 716  
 Shreve, S. 351, 360, 376, 451, 481, 501, 543, 932  
 Sircar, K.R. 237, 288, 307, 332  
 Sølna, K. 288, 307  
 Sornette, D. 617  
 Steele, J.M. 493  
 Stroock, D.W. 758  
 Sulem, A. 675  
  
 Tankov, P. 665, 675, 682, 688, 697, 713  
 Teng, T.-R. 534, 628, 636  
 Thales 5  
 Tistaert, J. 303  
 Toy, B. 580  
 Turnbull, S.M. 436  
  
 Uy, W.I. 570  
  
 Vanmaele, M. 442  
 Vašíček, O. 4, 546, 562  
 Volkov, S.N. 277  
 Vorst, A.C.F. 428  
  
 Wakeman, L. 436  
 Watanabe, S. 151, 241  
 Wei, X. 637  
 Whaley, R.E. 498, 500  
 White, A. 551  
 Widder, D.V. 223  
 Wiener, N. 2, 139  
 Williams, D. 98  
 Wilmott, P. 504  
 Wong, H.Y. 59, 370  
 Woodward, D.E. 289, 337, 914  
 Wu, X. 582  
  
 Yang, Z. 455  
 Yor, M. 135, 288, 351, 431–433, 435, 569, 963  
 Yu, J.D. 439, 571  
  
 Zhang, Q. 311  
 Zou, J. 313



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This book is an introduction to the pricing and hedging of financial derivatives, including vanilla and exotic options, by stochastic calculus and partial differential equation methods. The presentation is done both in discrete and continuous-time financial models, with an emphasis on the complementarity between algebraic and probabilistic methods. In particular it covers the pricing of some interest rate derivatives, of American options, of exotic options such as barrier, lookback and Asian options, and stochastic models with compound Poisson jumps. The text is accompanied with a number of figures and simulations, and includes numerous examples based on actual market data. The concepts presented are also illustrated by 224 exercises and 13 problems with complete solutions.

