

Risk-Neutral Valuation

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Reviews

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(Dr. Haskell Osinski)

RISK-NEUTRAL VALUATION



Book Condition: New. Publisher/Verlag: Springer, Berlin | Pricing and Hedging of Financial Derivatives | This second edition - completely up to date with new exercises - provides a comprehensive and self-contained treatment of the probabilistic theory behind the risk-neutral valuation principle and its application to the pricing and hedging of financial derivatives. On the probabilistic side, both discrete- and continuous-time stochastic processes are treated, with special emphasis on martingale theory, stochastic integration and change-of-measure techniques. Based on firm probabilistic foundations, general properties of discrete- and continuous-time financial market models are discussed. | ContentsPreface to the Second EditionPreface to the First Edition1. Derivative Background1.1 Financial Markets and Instruments1.1.1 Derivative Instruments1.1.2 Underlying Securities1.1.3 Markets1.1.4 Types of Traders1.1.5 Modeling Assumptions1.2 Arbitrage1.3 Arbitrage Relationships 1.3.1 Fundamental Determinants of Option Values 1.3.2 Arbitrage Bounds 1.4 Single-period Market Models1.4.1 A Fundamental Example1.4.2 A Single-period Model1.4.3 A Few Financial-economic ConsiderationsExercises 2. Probability Background2.1 Measure2.2 Integral2.3 Probability2.4 Equivalent Measures and Radon-Nikodym Derivatives2.5 Conditional Expectation2.6 Modes of Convergence2.7 Convolution and Characteristic Functions2.8 The Central Limit Theorem2.9 Asset Return Distributions2.10 In.nite Divisibility and the L evy-Khintchine Formula 2.11 Elliptically Contoured Distributions 2.12 Hyberbolic Distributions Exercises 3. Stochastic Processes in Discrete Time3.1 Information and Filtrations3.2 Discrete-parameter Stochastic Processes3.3 De.nition and Basic Properties of Martingales3.4 Martingale Transforms3.5 Stopping Times and Optional Stopping 3.6 The Snell Envelope and Optimal Stopping 3.7 Spaces of Martingales 3.8 Markov ChainsExercises 4. Mathematical Finance in Discrete Time4.1 The Model4.2 Existence of Equivalent Martingale Measures4.2.1 The No-arbitrage Condition4.2.2 Risk-Neutral Pricing4.3 Complete Markets: Uniqueness of EMMs4.4 The Fundamental Theorem of Asset Pricing: Risk-Neutral Valuation4.5 The Cox-Ross-Rubinstein Model4.5.1 Model Structure4.5.2 Risk-neutral Pricing4.5.3 Hedging4.6 Binomial Approximations4.6.1 Model Structure 4.6.2 The Black-Scholes Option Pricing Formula 4.6.3 Further Limiting Models 4.7 American Options 4.7.1 Theory4.7.2 American Options in the CRR Model4.8 Further Contingent Claim Valuation in Discrete Time4.8.1 Barrier Options4.8.2 Lookback Options4.8.3 A Three-period Example4.9 Multifactor Models4.9.1 Extended Binomial Model4.9.2 Multinomial Models Exercises 5. Stochastic Processes in...



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