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American Chooser Options

Abstract:

This talk will focus upon the valuation of American chooser options, i.e., American-style contracts written on the maximum of an American put and an American call. We will undertake an examination of the immediate exercise region. We will introduce the early exercise premium representation of the chooser's price and show how it is used to construct a system of coupled integral equations for the pair of exercise boundaries. Such a representation suggests a two-step procedure for valuation. First, approximate the pair of exercise boundaries. Second, use the approximate boundaries as input to compute the option price. We will show illustrations of the value function and boundary properties and discuss if there are any differences in behavior when more complex choosers are considered.

Tuesday, February 17, 2009
Room 125, Sherrerd Hall
4:30 - 6:00 PM