



Risk-Neutral Valuation

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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. | Contents Preface to the Second Edition Preface to the First Edition 1. Derivative Background 1.1 Financial Markets and Instruments 1.1.1 Derivative Instruments 1.1.2 Underlying Securities 1.1.3 Markets 1.1.4 Types of Traders 1.1.5 Modeling Assumptions 1.2 Arbitrage 1.3 Arbitrage Relationships 1.3.1 Fundamental Determinants of Option Values 1.3.2 Arbitrage Bounds 1.4 Single-period Market Models 1.4.1 A Fundamental Example 1.4.2 A Single-period Model 1.4.3 A Few Financial-economic Considerations Exercises 2. Probability Background 2.1 Measure 2.2 Integral 2.3 Probability 2.4 Equivalent Measures and Radon-Nikodym Derivatives 2.5 Conditional Expectation 2.6 Modes of Convergence 2.7 Convolution and Characteristic Functions 2.8 The Central Limit Theorem 2.9 Asset Return Distributions 2.10 Infinite Divisibility and the Levy-Khintchine Formula 2.11 Elliptically Contoured Distributions 2.12 Hyperbolic Distributions Exercises 3. Stochastic Processes in Discrete Time 3.1 Information and Filtrations 3.2 Discrete-parameter Stochastic Processes 3.3 Definition and Basic Properties of Martingales 3.4 Martingale Transforms 3.5 Stopping...



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