

Evaluation of Callable Bonds: Finite Difference Methods, Stability and Accuracy

[Get access >](#)

Hans-Jörg Böttler

The Economic Journal, Volume 105, Issue 429, 1 March 1995, Pages 374–384,
<https://doi.org/10.2307/2235497>

Published: 01 March 1995

Abstract

The purpose of this paper is to evaluate numerically the semi-American callable bond by means of finite difference methods. This study implies three results. First, the numerical error is greater for the callable bond price than for the straight bond price, and too large for real applications. Secondly, the numerical accuracy of the callable bond price computed for the relevant range of interest rates depends entirely on the finite difference scheme which is chosen for the boundary points. Thirdly, the boundary scheme which yields the smallest numerical error with respect to the straight bond does not perform best with respect to the callable bond.

Issue Section: [Articles](#)

This content is only available as a PDF.

The Economic Journal © 1995 Royal Economic Society

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Royal Economic Society members

[Sign in through society site >](#)



**ROYAL
ECONOMIC
SOCIETY**

Personal account

Institutional access

- Get email alerts
- Save searches
- Purchase content
- Activate purchases and trials

Sign in >

Register

Sign in through your institution >

Sign in with a library card

Sign in with username /
password

Recommend to your librarian

Institutional account management

Sign in as administrator

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Rental



This article is also available for rental through DeepDyve.