Pricing and Hedging of Derivative Securities

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Abstract

The theory of pricing and hedging of derivative securities is mathematically sophisticated. This book is an introduction to the use of advanced probability theory in financial economics, presenting the necessary mathematics in a precise and rigorous manner. Professor Nielsen concentrates on three main areas: the theory of continuous-time stochastic processes, a notorious barrier to the understanding of probability theory in finance; the general theory of trading, pricing, and hedging in continuous time, using the martingale approach; and a detailed look at the BlackScholes and the Gaussian one-factor models of the term structure of interest rates. His book enables the reader to read the journal literature with confidence, apply the methods to new problems, or to do original research in the field.

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