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Pricing U.S. Dollar Index Futures Options: An Empirical Investigation

Vivek Bhargava, 1 John M. Clark 2

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Abstract

This paper develops a pricing model and empirically tests the pricing efficiency of options on the U.S. Dollar Index (USDX) futures contract. Empirical tests of the model indicate that the market consistently overprices these options relative to the derived model. This overpricing is more pronounced for out-of-the-money options than for in-the-money options and more pronounced for put options than for call options. To validate the above results, delta neutral portfolios are created for one- and two-day holding periods and consistently generate positive arbitrage profits, indicating that on average the market overprices the options on the USDX futures contracts.

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