

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

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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 (USD_X) 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 USD_X futures contracts.

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