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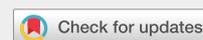
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# Pricing American put option on zero-coupon bond under fractional CIR model with transaction cost

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Pages 864-870 | Received 17 Sep 2016, Accepted 06 Feb 2017, Accepted author version posted online: 19 Feb 2017,  
Published online: 15 Jun 2017

 Cite this article  <https://doi.org/10.1080/03610918.2017.1295153>



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## ABSTRACT

The motivation of this study is to evaluate the American put option on zero-coupon bond, when the interest rate model is governed by a fractional CIR (FCIR) interest rate model. Since the existence of fractional Brownian motion, leading to create the arbitrage, we employ the transaction cost for eliminating the arbitrage. We first of all apply the Leland's hedging strategy for a self-financing portfolio that contains an American option and zero-coupon bond and derive a formula for the transaction cost. We perform the least-square Monte Carlo (LSM) method for pricing American option under the proposed interest rate model.

KEYWORDS:

## MATHEMATICS SUBJECT CLASSIFICATION:

91G30

91G20

91G60

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[Option Pricing and Replication with Transactions Costs](#)

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[Valuing American Options by Simulation: A Simple Least-Squares Approach](#)

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[An Algorithmic Introduction to Numerical Simulation of Stochastic Differential Equations](#)

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