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Value of a put option to the risk-averse newsvendor

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Abstract

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poor economic conditions (low sale price/high purchase cost) it may not be optimal to purchase the option. We also find that when the option writer assumes a higher risk/return for the random option payoff (that he pays the newsvendor) the newsvendor can reduce her profit uncertainty by choosing the strike price or strike quantity optimally.

Keywords:

Newsvendor model   put option   stochastic dominance

Acknowledgements

Notes

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