



Applied Mathematical Finance >

Volume 18, 2011 - [Issue 1](#)

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Variance-Optimal Hedging for Time-Changed Lévy Processes

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Pages 1-28 | Received 19 May 2009, Published online: 13 Sep 2010

Cite this article <https://doi.org/10.1080/13504861003669164>



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Abstract

In this article, we solve the variance-optimal hedging problem in stochastic volatility (SV) models based on time-changed Lévy processes, that is, in the setup of Carr et al. (2003). The solution is derived using results for general affine models in the companion article [Kallsen and Pauwels (2009)].

Key Words:

Variance-optimal hedging

Stochastic volatility

Time-changed Lévy process

Laplace transform

Acknowledgements

The first author gratefully acknowledges partial support through Sachbeihilfe KA 1682/2-1 of the Deutsche Forschungsgemeinschaft. We sincerely thank Richard Vierthauer and Johannes Muhle-Karbe for their assistance and many discussions. Thanks are also due to two anonymous referees for helpful comments.

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