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Variance-Optimal Hedging for Time-Changed Lévy Processes

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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

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