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The British Put Option

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Abstract

We pres… ture of American … est predictio… f the stock price eq… key to the British p… k price to be unfavou… e the true drift … ns of this prote… xercise at or above th… price (coverin… sly) but also when th… gher returns at a less… price in terms of … boundary itself ca… uation.

Using these results we perform a financial analysis of the British put option that leads to the conclusions above and shows that with the contract drift properly selected the British put option becomes a very attractive alternative to the classic American put.

Key Words:

British put option | American put option | European put option | arbitrage-free price | rational exercise boundary | liquid/illiquid market | geometric Brownian motion | optimal stopping | parabolic free-boundary problem | nonlinear integral equation | local time–space calculus | non-monotone free boundary

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