









Share

Read this article

Abstract

Reprints & Permissions

We present a new put option where the holder enjoys the early exercise feature of American options whereupon his payoff (deliverable immediately) is the 'best prediction' of the European payoff under the hypothesis that the true drift of the stock price equals a contract drift. Inherent in this is a protection feature which is key to the British put option. Should the option holder believe the true drift of the stock price to be unfavourable (based upon the observed price movements) he can substitute the true drift with the contract drift and minimize his losses. The practical implications of this protection feature are most remarkable as not only can the option holder exercise at or above the strike price to a substantial reimbursement of the original option price (covering the ability to sell in a liquid option market completely endogenously) but also when the stock price movements are favourable he will generally receive higher returns at a lesser price. We derive a closed form expression for the arbitrage-free price in terms of the rational exercise boundary and show that the rational exercise boundary itself can be characterized as the unique solution to a nonlinear integral equation.

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:



Acknowledgements

We are grateful to Credit Suisse London for hospitality and support. Special thanks go to David Shorthouse, Laurent Veilex and Stephen Zoio for stimulating and informative discussions.



Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions



Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG