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The British Put Option

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Abstract

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 the drift of the European payoff.

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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.

Q 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

Q Mathematics Subject Classification (2000): 91B28 60G40 35R35 45G10 60J60

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