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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 eq[...] key to the British p[...]k price to be unfavou[...]e the true drift wit[...]ns of this protecti[...]xercise at or abov[...] price (cov[...]sly) but also when th[...]gher returns at a less[...]price in terms of[...] boundary itself ca[...]uation. Using th[...] 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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