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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

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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.

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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