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The British Put Option

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Abstract

We pres… …ture of
America… …est
predicti… …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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