

Quantitative Finance >

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Stéphane Crépey

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Abstract

In this article, we study the hedging of a call option in a Black-Scholes market with a negative drift. Since the market should be a martingale, we conclude that both simple and negative

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check numerically that the conclusions we draw are true when transaction costs are taken into account. In the last section we discuss the case of barrier options.

Acknowledgments

The author wishes to thank Rama Cont and Paul Besson for helpful discussions, Ekaterina Voltchkova for her assistance with programming the codes for the barrier options, and Christian Boely for a thorough revision of the manuscript.

Notes

Vähämaa [55] assesses the significance of the differences by a bootstrapping method with 1000 resamplings.

Note the difference between these conclusions and the implications of section 2.2 (see also the discussion in section 3.5).

We shall take τ as being equal to one market day in the numerical experiments of sections

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