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A note on skewness and kurtosis adjusted option pricing models under the Martingale restriction*


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Abstract

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when the and Su (1996) expansion. Brown and economic nt is to e wness and d Robinson erences and Su (1996) significant in



specific cases, namely for long maturity and far-from-the-money options when markets are turbulent.

Acknowledgement

We are grateful to Charles Corrado and Mikael Rockinger for help and encouragement in preparing this work. Thanks also to Thierry Chauveau, Thierry Michel, the two referees and the editor-in-chief for helpful remarks, corrections and suggestions. This work was completed while the second author was a Visiting Researcher at the LSE-FMG. The usual disclaimers apply.

Notes

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See Jurczenko et al ([2002b](#)) for a complete comparison between the various models using statistical expansions.

We explicitly refer here to the standard notations used for instance by Baxter and Rennie ([1996](#)) or Hull ([2003](#)). We thank the second referee for pointing out some possible confusions with other notations.

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See Corrado and Su ([1996](#)), p 180 and Brown and Robinson ([2002](#)), p 9.

These values are realistic in the sense that they correspond to mean parameter values when backing-out implied moments corresponding to the Jarrow and Rudd ([1982](#)) model on the CAC 40 options on the French market for the period 1997–1999 (see Capelle-Blancard et al 2001, for details).

See Capelle-Blancard et al 2001, for details on the database, filters, optimization criterion and routines.

In Figures 5 and 6 French CAC 40 long term options for the period 10/97 through 12/98 have been used to estimate the error terms and related density probabilities (see Capelle-Blancard et al 2001 for details on the database, filters, optimization criterion and routines). For easy representations, Figure 7 and 8 illustrate estimations on sub-samples.

We thank Charles Corrado, the two referees and the editor-in-chief for pointing out these two drawbacks.

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