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Original Articles

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

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([2002](#)), and market data from the French options market. We show that differences between the original, corrected and our modified versions of the Corrado and Su ([1996](#)) original model are minor on the whole sample, but could be economically significant in specific cases, namely for long maturity and far-from-the-money options when markets are turbulent.

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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. (2002) for a comparison of different models using standard and non-standard distributions.

We explain the differences between the original and our modified version and Rennie (1996) for the case of the GJR model. We also provide some possible extensions.

See also Jurczenko et al. (2002) for a comparison of different models using standard and non-standard distributions.

Adopting the GJR model, we use the following formula to [equation \(1\)](#).

In the Fig. 1, we show the results of the GJR model for the modified version of the Corrado and Su (1996) model. The mean parameter is set to 0.05 and the volatility parameter is set to 0.01. The long term options market for the period 01/97 through 12/9 using the Jarrow and Rudd ([1982](#))

model—see Capelle-Blancard et al [2001](#) for details). Other parameters are those of the Corrado and Su ([1996](#)) case study, also reported in Brown and Robinson ([2002](#)).

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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