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152 | 24

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Early exercise boundary and option prices in Lévy driven models

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Abstract

Pricing and hedging of European, American, barrier options and interest rate derivatives for wide classes of Lévy driven models is considered in situations where qualitative and quantitative differences between Gaussian and Lévy modelling are most prominent, and the dependence on the choice of a family of Lévy processes is analysed.

Asymptotics of option prices near the barrier and expiry are calculated; for American options, two fast numerical methods are constructed. It is shown that for many classes

of Lévy processes, the early exercise boundary is determined by the strike price and the barrier level. For American options, the early exercise boundary is determined by the strike price and the barrier level. For American options, the early exercise boundary is determined by the strike price and the barrier level.

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