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New and robust drift approximations for the LIBOR market model

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Abstract

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We present four new methods for approximating the drift in the LIBOR market model when performing very long steps. These are compared with a variety of existing methods, including PPR, Glasserman–Zhao and predictor–corrector. We find that two of them, which use correlation adjustments to better approximate the drift, are more effective than existing methods.

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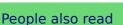
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