

Ouantitative Finance > Volume 8, 2008 - Issue 4

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Research Papers

New and robust drift approximations for the LIBOR market model

Pages 427-434 | Received 07 Feb 2006, Accepted 17 May 2007, Published online: 12 Jun 2008

▲ https://doi.org/10.1080/14697680701458000 **66** Cite this article



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Abstract

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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