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# Estimating risk-neutral density with parametric models in interest rate markets

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Pages 55-70 | Received 29 Aug 2007, Accepted 09 Jun 2008, Published online: 11 Feb 2009

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#### **Abstract**

The departure in modelling terms from the log-normal distribution for option pricing has

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Q Keywords: Risk-neutral density Real-world density Power utility function Generalized beta distribution Generalized gamma distribution Burr3 distribution Caps and floors

# Acknowledgements

We thank Simon Brennan, Ashay Kadam, Christoph Schleicher, Catalina Stefanescu, Giovanni Urga, two referees and seminar participants at Cass Business School, City University, for helpful comments on earlier versions of this paper.

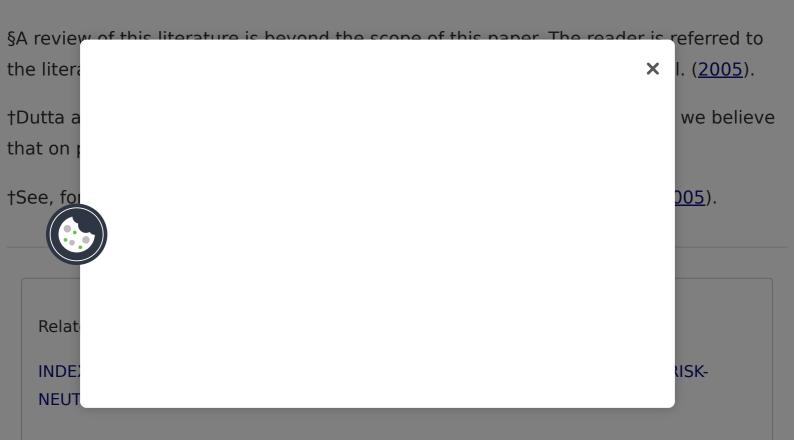
The results and the views expressed in this paper are those of the authors and should not be thought to represent those of the Bank of America or any of its subsidiaries.

## Notes

†Brunner and Hafner (2003) use the estimated RND to price a digital option.

†See for details Campa et al. (<u>1997</u>, <u>1998</u>), Melick and Thomas (<u>1997</u>), Soderlind and Swensson (<u>1997</u>), Soderlind (<u>2000</u>), and Markose and Alentorn (<u>2005</u>).

‡For example, Ait-Sahalia and Lo (2000), Jackwerth (2000), Rosenberg and Engle (2002), and Giamouridis (2005).



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