

Package ‘QFRM’

July 21, 2025

Type Package

Title Pricing of Vanilla and Exotic Option Contracts

Version 1.0.1

Date 2015-06-28

Maintainer Oleg Melnikov <XisReal@gmail.com>

Description Option pricing (financial derivatives) techniques mainly following textbook 'Options, Futures and Other Derivatives', 9ed by John C.Hull, 2014. Prentice Hall. Implementations are via binomial tree option model (BOPM), Black-Scholes model, Monte Carlo simulations, etc.

This package is a result of Quantitative Financial Risk Management course (STAT 449 and STAT 649) at Rice University, Houston, TX, USA, taught by Oleg Melnikov, statistics PhD student, as of Spring 2015.

Repository CRAN

License GPL (>= 2)

URL <http://Oleg.Rice.edu>

NeedsCompilation no

Depends R (>= 2.14.0)

LazyLoad yes

LazyData yes

Imports stats,methods,graphics

Author Oleg Melnikov [aut, cre],

Max Lee [ctb],

Robert Abramov [ctb],

Richard Huang [ctb],

Liu Tong [ctb],

Jake Kornblau [ctb],

Xinnan Lu [ctb],

Kiryl Novikau [ctb],

Tongyue Luo [ctb],

Le You [ctb],

Jin Chen [ctb],

Chengwei Ge [ctb],

Jiayao Huang [ctb],

Kim Raath [ctb]

Date/Publication 2015-07-28 00:48:19

Contents

| | |
|------------------------------|----|
| as.OptPos | 3 |
| AsianBS | 4 |
| AsianMC | 5 |
| AverageStrikeMC | 6 |
| BarrierBS | 7 |
| BarrierLT | 8 |
| BarrierMC | 10 |
| BinaryBS | 11 |
| BinaryMC | 12 |
| Binary_BOPM | 13 |
| BOPM | 14 |
| BOPM_Eu | 15 |
| BS | 16 |
| BS_Simple | 17 |
| ChooserBS | 18 |
| ChooserLT | 19 |
| ChooserMC | 20 |
| CompoundBS | 21 |
| CompoundLT | 22 |
| DeferredPaymentLT | 24 |
| ForeignEquityBS | 25 |
| ForwardStartBS | 26 |
| ForwardStartMC | 27 |
| GapBS | 28 |
| GapLT | 29 |
| GapMC | 30 |
| HolderExtendibleBS | 31 |
| is.Opt | 32 |
| is.OptPos | 33 |
| is.OptPx | 33 |
| LadderMC | 34 |
| LookbackBS | 35 |
| LookbackMC | 36 |
| Opt | 38 |
| OptPos | 39 |
| OptPx | 39 |
| pbnorm | 40 |
| PerpetualBS | 41 |
| Profit | 42 |
| QuotientBS | 43 |
| QuotientMC | 44 |
| RainbowBS | 45 |
| ShoutFD | 46 |
| ShoutLT | 47 |

| | |
|-----------------------------|-----------|
| <code>as.OptPos</code> | 3 |
| ShoutLTVectorized | 48 |
| ShoutMC | 49 |
| VarianceSwapBS | 50 |
| VarianceSwapMC | 51 |
| Index | 53 |

| | |
|------------------------|--|
| <code>as.OptPos</code> | <i>Coerce an argument to OptPos class.</i> |
|------------------------|--|

Description

Coerce an argument to OptPos class.

Usage

```
as.OptPos(o = Opt(), Pos = c("Long", "Short"), Prem = 0)
```

Arguments

| | |
|-------------------|--|
| <code>o</code> | A Opt or OptPx object |
| <code>Pos</code> | Specify position direction in your portfolio. Long indicates that you own security (it's an asset). Short that you shorted (short sold) security (it's a liability). |
| <code>Prem</code> | Option premium, i.e. cost of an option purchased or to be purchased. |

Value

An object of class OptPos.

Author(s)

Oleg Melnikov

Examples

```
as.OptPos(Opt())
```

 AsianBS

Asian option valuation via Black-Scholes (BS) model

Description

Price Asian option using BS model

Usage

```
AsianBS(o = OptPx(Opt(Style = "Asian")))
```

Arguments

o An object of class OptPx

Details

This pricing algorithm assumes average price is calculated continuously.

Value

A list of class AsianBS consisting of the original OptPx object and the option pricing parameters M1, M2, F0, and sigma as well as the computed option price PxBS.

Author(s)

Xinnan Lu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html> pp.609-611.

Examples

```
(o = AsianBS())$PxBS #Price = ~4.973973, using default values

o = Opt(Style='Asian',S0=100,K=90,ttm=3)
(o = AsianBS(OptPx(o,r=0.03,q=0,vol=0.3)))$PxBS

o = Opt(Style='Asian',Right='P',S0=100,K=110,ttm=0.5)
(o = AsianBS(OptPx(o,r=0.03,q=0.01,vol=0.3)))$PxBS

#See J.C.Hull, OFOD'2014, 9-ed, ex.26.3, pp.610. The price is 5.62.
o = Opt(Style='Asian',Right='Call',S0=50,K=50,ttm=1)
(o = AsianBS(OptPx(o,r=0.1,q=0,vol=0.4)))$PxBS
```

AsianMC

*Asian option valuation with Monte Carlo (MC) simulation.***Description**

Calculates the price of an Asian option using Monte Carlo simulations to determine expected pay-out.

Assumptions:

The option follows a General Brownian Motion (BM),

$ds = \mu * S * dt + \text{sqrt}(vol) * S * dW$ where $dW \sim N(0, 1)$.

The value of μ (the expected price increase) is r , the risk free rate of return (RoR).

The averaging period is the life of the option.

Usage

```
AsianMC(o = OptPx(o = Opt(Style = "Asian"), NSteps = 5), NPaths = 5)
```

Arguments

`o` The OptPx Asian option to price.
`NPaths` The number of simulation paths to use in calculating the price,

Value

The option `o` with the price in the field `PxMC` based on MC simulations.

Author(s)

Jake Kornblau, Department of Statistics and Department of Computer Science, Rice University, 2016

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8,

<http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>

<http://www.math.umn.edu/~spirn/5076/Lecture16.pdf>

Examples

```
(o = AsianMC())$PxMC #Price = ~5.00, using default values
```

```
o = OptPx(Opt(Style='Asian'), NSteps = 5)
(o = AsianMC(o, NPaths=5))$PxMC #Price = ~$5
```

```
(o = AsianMC(NPaths = 5))$PxMC # Price = ~$5
```

```
o = Opt(Style='Asian', Right='Put', S0=10, K=15)
```

```
o = OptPx(o, r=.05, vol=.1, NSteps = 5)
(o = AsianMC(o, NPaths = 5))$PxMC # Price = ~$4
```

```
#See J.C.Hull, OFOD'2014, 9-ed, ex.26.3, pp.610.
```

```
o = Opt(Style='Asian', S0=50, K=50, ttm=1)
o = OptPx(o, r=0.1, q=0, vol=0.4, NSteps=5)
(o = AsianBS(o))$PxBS #Price is 5.62.
(o = AsianMC(o))$PxMC
```

AverageStrikeMC

Average Strike option valuation via Monte Carlo (MC) simulation

Description

Calculates the price of an Average Strike option using Monte Carlo simulations by determining the determine expected payout. Assumes that the input option follows a General Brownian Motion $ds = \mu * S * dt + \text{sqrt}(vol) * S * dz$ where $dz \sim N(0, 1)$ Note that the value of μ (the expected price increase) is assumed to be σr , the risk free rate of return. Additionally, the averaging period is assumed to be the life of the option.

Usage

```
AverageStrikeMC(o = OptPx(o = Opt(Style = "AverageStrike")), NPaths = 5)
```

Arguments

o The AverageStrike OptPx option to price.
NPaths the number of simulations to use in calculating the price,

Value

The original option object **o** with the price in the field **PxMC** based on the MC simulations.

Author(s)

Jake Kornblau, Department of Statistics and Department of Computer Science, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html> Also, <http://www.math.umn.edu/~spirn/5076/Lecture16.pdf>

Examples

```
(o = AverageStrikeMC())$PxMC #Price =~ $3.6

o = OptPx(o = Opt(Style='AverageStrike'), NSteps = 5)
(o = AverageStrikeMC(o))$PxMC # Price =~ $6

(o = AverageStrikeMC(NPaths = 20))$PxMC #Price =~ $3.4

o = OptPx(o = Opt(Style='AverageStrike'), NSteps = 5)
(o = AverageStrikeMC(o, NPaths = 20))$PxMC #Price =~ $5.6
```

BarrierBS

*Barrier option pricing via Black-Scholes (BS) model***Description**

This function calculates the price of a Barrier option. This price is based on the assumptions that the probability distribution is lognormal and that the asset price is observed continuously.

Usage

```
BarrierBS(o = OptPx(Opt(Style = "Barrier")), dir = c("Up", "Down"),
  knock = c("In", "Out"), H = 40)
```

Arguments

| | |
|-------|--|
| o | The OptPx option object to price. See OptBarrier(), OptPx(), and Opt() for more information. |
| dir | The direction of the option to price. Either Up or Down. |
| knock | Whether the option goes In or Out when the barrier is reached. |
| H | The barrier level |

Details

To price the barrier option, we need to know whether the option is Up or Down | In or Out | Call or Put. Beyond that we also need the S0, K, r, q, vol, H, and ttm arguments from the object classes defined in the package.

Value

The price of the barrier option o, which is based on the BSM-adjusted algorithm (see references).

Author(s)

Kiryl Novikau, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. pp.606-607

Examples

```
(o = BarrierBS())$PxBS # Option with default arguments is valued at $9.71

#Down-and-In-Call
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Call", ContrSize=10)
o = OptPx(o, r = .05, q = 0, vol = .25)
o = BarrierBS(o, dir = "Down", knock = 'In', H = 40)

#Down-and-Out Call
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Call", ContrSize=10)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Down", knock = 'Out', H = 40)

#Up-and-In Call
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Call", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Up", knock = 'In', H = 60)

#Up-and-Out Call
o = Opt(Style='Barrier', S0 = 50, K = 50, ttm = 1, Right="Call", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Up", knock = 'Out', H = 60)

#Down-and-In Put
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Put", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Down", knock = 'In', H = 40)

#Down-and-Out Put
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Put", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Down", knock = 'Out', H = 40)

#Up-and-In Put
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Put", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Up", knock = 'In', H = 60)

#Up-and-Out Put
o = Opt(Style='Barrier', S0=50, K=50, ttm=1, Right="Put", ContrSize=1)
o = OptPx(o, r = .05, q = .02, vol = .25)
o = BarrierBS(o, dir = "Up", knock = 'Out', H = 60)
```

Description

Use Binomial Tree to price barrier options with relatively large NSteps (NSteps > 100) steps. The price may be not as precise as BSM function cause the convergence speed for Binomial Tree is kind of slow.

Usage

```
BarrierLT(o = OptPx(Opt(Style = "Barrier"), vol = 0.25, r = 0.05, q = 0.02,
  NSteps = 5), dir = c("Up", "Down"), knock = c("In", "Out"), H = 60)
```

Arguments

| | |
|-------|--|
| o | An object of class OptPx |
| dir | A direction for the barrier, either 'Up' or 'Down' Default='Up' |
| knock | The option is either a knock-in option or knock-out option. Default='In' |
| H | The barrier level. H should less than S_0 if 'Up', H should greater than S_0 if 'Down' Default=60. |

Value

A list of class BarrierLT consisting of the input object OptPx and the appended new parameters and option price.

Author(s)

Tong Liu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html> p.467-468. Trinomial Trees, p.604-606: Barrier Options.

Examples

```
# default Up and Knock-in Call Option with H=60, approximately 7.09
(o = BarrierLT())$PxLT

#Visualization of price changes as Nsteps change.
o = Opt(Style="Barrier")
visual=sapply(10:200,function(n) BarrierLT(OptPx(o,NSteps=n))$PxLT)

c=(10:200)
plot(visual~c,type="l",xlab="NSteps",ylab="Price",main="Price converence with NSteps")

# Down and Knock-out Call Option with H=40
o = OptPx(o=Opt(Style="Barrier"))
BarrierLT(o,dir="Down",knock="Out",H=40)

# Down and Knock-in Call Option with H=40
```

```

o = OptPx(o=Opt(Style="Barrier"))
BarrierLT(o,dir="Down",knock="In",H=40)

# Up and Knock-out Call Option with H=60
o = OptPx(o=Opt(Style="Barrier"))
BarrierLT(o,dir='Up',knock="Out")

# Down and Knock-out Put Option with H=40
o = OptPx(o=Opt(Style="Barrier",Right="Put"))
BarrierLT(o,dir="Down",knock="Out",H=40)

# Down and Knock-in Put Option with H=40
o = OptPx(o=Opt(Style="Barrier",Right="Put"))
BarrierLT(o,dir="Down",knock="In",H=40)

# Up and Knock-out Put Option with H=60
o = OptPx(o=Opt(Style="Barrier",Right="Put"))
BarrierLT(o,dir='Up',knock="Out")

# Up and Knock-in Put Option with H=60
BarrierLT(OptPx(o=Opt(Style="Barrier",Right="Put")))

```

BarrierMC

Barrier option valuation via Monte Carlo (MC) simulation.

Description

Calculates the price of a Barrier Option using 10000 Monte Carlo simulations. The helper function BarrierCal() aims to calculate expected payout for each stock prices.

Important Assumptions: The option follows a General Brownian Motion (GBM) $ds = \mu * S * dt + \text{sqrt}(vol) * S * dW$ where $dW \sim N(0, 1)$. The value of μ (the expected percent price increase) is assumed to be $r - \rho$.

Usage

```
BarrierMC(o = OptPx(o = Opt(Style = "Barrier")), knock = c("In", "Out"),
  B = 60, NPaths = 5)
```

Arguments

| | |
|--------|--|
| o | The OptPx Barrier option to price. |
| knock | Defines the Barrier option to be "In" or "Out" |
| B | The Barrier price level |
| NPaths | The number of simulation paths to use in calculating the price |

Value

The option o with the price in the field PxMC based on MC simulations and the Barrier option properties set by the users themselves

Author(s)

Huang Jiayao, Risk Management and Business Intelligence at Hong Kong University of Science and Technology, Exchange student at Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. Also, <http://stackoverflow.com/questions/25946852/r-monte-carlo-simulation-price-path-converging-volatility-issu>

Examples

```
(o = BarrierMC())$PxMC #Price =~ $11

o = OptPx(o=Opt(Style='Barrier'),NSteps = 10)
(o = BarrierMC(o))$PxMC #Price =~ $14.1

(o = BarrierMC(NPaths = 5))$PxMC # Price =~ $11

(o = BarrierMC(B=65))$PxMC # Price =~ $10

(o = BarrierMC(knock="Out"))$PxMC #Price =~ $1
```

 BinaryBS

Binary option valuation with Black-Scholes (BS) model

Description

S3 object pricing model for a binary option. Two types of binary options are priced: 'cash-or-nothing' and 'asset-or-nothing'.

Usage

```
BinaryBS(o = OptPx(Opt(Style = "Binary")), Q = 1,
  Type = c("cash-or-nothing", "asset-or-nothing"))
```

Arguments

| | |
|------|--|
| o | An object of class OptPx |
| Q | A fixed amount of payoff |
| Type | Binary option type: 'Cash or Nothing' or 'Asset or Nothing'. Partial names are allowed, eg. 'C' or 'A' |

Value

A list of class Binary.BS consisting of the input object OptPx and the appended new parameters and option price.

Author(s)

Xinnan Lu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. pp.606-607

Examples

```
(o = BinaryBS())$PxBS

#This example should produce price 4.33 (see Derivagem, DG201.xls)
o = Opt(Style="Binary", Right='Call', S0=50, ttm=5/12, K=52)
o = OptPx(o, r=.1, vol=.40, NSteps=NA)
(o = BinaryBS(o, Q = 10, Type='cash-or-nothing'))$PxBS

BinaryBS(OptPx(Opt(Style="Binary"), q=.01), Type='asset-or-nothing')
BinaryBS(OptPx(Opt(Style="Binary", S0=100, K=80),q=.01))
o = Opt(Style="Binary", Right="Put", S0=50, K=60)
BinaryBS(OptPx(o,q=.04), Type='asset-or-nothing')
```

BinaryMC

Binary option valuation via Monte-Carlo (via) simulation.

Description

Binary option valuation via Monte-Carlo (via) simulation.

Usage

```
BinaryMC(o = OptPx(Opt(Style = "Binary")), Q = 25,
  Type = c("cash-or-nothing", "asset-or-nothing"), NPaths = 5)
```

Arguments

| | |
|--------|--|
| o | An OptPx object |
| Q | A fixed numeric amount of payoff |
| Type | Binary option type: 'cash-or-nothing' or 'asset-or-nothing'. |
| NPaths | The number of simulation paths to use in calculating the price Partial names are allowed, eg. 'c' or 'a' |

Details

Two types of binary options are priced: 'cash-or-nothing' and 'asset-or-nothing'.

Value

The original input object `o` with added parameters and option price `PxMC`

Author(s)

Tongyue Luo, Rice University, Spring 2015.

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. pp.606-607.

Examples

```
(o = BinaryMC())$PxMC

o = OptPx(Opt(Style="Binary"))
(o = BinaryMC(o, Type="cash"))$PxMC

o = OptPx(Opt(Style="Binary"),q=0.01)
(o = BinaryMC(o, Type="asset"))$PxMC

o = OptPx(Opt(Style="Binary", S0=100, K=80),q=0.01)
(o = BinaryMC(o, Type="cash"))$PxMC

o = OptPx(Opt(Style="Binary", Right="Put", S0=50, K=60),q=0.04)
(o = BinaryMC(o, Type="asset"))$PxMC
```

Binary_BOPM

Binary option valuation via lattice tree (LT) implementation

Description

Compute option price via binomial option pricing model (recombining symmetric binomial tree)

Usage

```
Binary_BOPM(o = OptPx(Opt(Style = "Binary")), Type = c("cash-or-nothing",
  "asset-or-nothing"), Q = 1000, IncBT = FALSE)
```

Arguments

| | |
|--------------------|--|
| <code>o</code> | OptPx object |
| <code>Type</code> | Binary option type: 'cash-or-nothing' or 'asset-or-nothing' |
| <code>Q</code> | A fixed amount of payoff |
| <code>IncBT</code> | TRUE/FALSE, indicates whether to include the full binomial tree in the returned object |

Value

original OptPx object with Px.BOPM property and (optional) binomial tree IncBT = FALSE: option price value (type double, class numeric) IncBT = TRUE: binomial tree as a list (of length (o\$N+1) of numeric matrices (2 x i). Each matrix is a set of possible i outcomes at time step i columns: (underlying prices, option prices)

Examples

```
(o = Binary_BOPM())$PxBT
```

```
o = OptPx(o=Opt(Style='Binary'))
(o = Binary_BOPM(o, Type='cash', Q=100, IncBT=TRUE))$PxBT
```

```
o = OptPx(Opt(Style='Binary'), r=0.05, q=0.02, rf=0.0, vol=0.30, NSteps=5)
(o = Binary_BOPM(o, Type='cash', Q=1000, IncBT=FALSE))$PxBT
```

```
o = OptPx(o=Opt(Style='Binary'), r=0.15, q=0.01, rf=0.05, vol=0.35, NSteps=5)
(o = Binary_BOPM(o, Type='asset', Q=150, IncBT=FALSE))$PxBT
```

```
o = OptPx(o=Opt(Style='Binary'), r=0.025, q=0.001, rf=0.0, vol=0.10, NSteps=5)
(o = Binary_BOPM(o, Type='cash', Q=20, IncBT=FALSE))$PxBT
```

 BOPM

Binomial option pricing model

Description

Compute option price via binomial option pricing model (recombining symmetric binomial tree). If no tree requested for European option, vectorized algorithm is used.

Usage

```
BOPM(o = OptPx(), IncBT = TRUE)
```

Arguments

| | |
|-------|--|
| o | An OptPx object |
| IncBT | Values TRUE or FALSE indicating whether to include a list of all option tree values (underlying and derivative prices) in the returned OptPx object. |

Value

An original OptPx object with PxBT field as the binomial-tree-based price of an option and (an optional) the fully-generated binomial tree in BT field.

- IncBT = FALSE: option price value (type double, class numeric)
- IncBT = TRUE: binomial tree as a list (of length (o\$NSteps+1) of numeric matrices (2 x i)

Each matrix is a set of possible i outcomes at time step i columns: (underlying prices, option prices)

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>. <http://amzn.com/0133456315>

```
#See Fig.13.11, Hull/9e/p291. #Create an option and price it
o = Opt(Style='Eu', Right='C', S0 = 808, ttm = .5, K = 800)
o = BOPM( OptPx(o, r=0.05, q=0.02, vol=0.2, NSteps=2), IncBT=TRUE)
o$PxBT #print added calculated price to PxBT field
```

```
#Fig.13.11, Hull/9e/p291: o = Opt(Style='Eu', Right='C', S0=810, ttm=.5, K=800)
BOPM( OptPx(o, r=0.05, q=0.02, vol=0.2, NSteps=2), IncBT=TRUE)$PxBT
```

```
#DerivaGem displays up to 10 steps: o = Opt(Style='Am', Right='C', 810, .5, 800)
BOPM( OptPx(o, r=0.05, q=0.02, vol=0.2, NSteps=20), IncBT=TRUE)
```

```
#DerivaGem computes up to 500 steps: o = Opt(Style='American', Right='Put', 810, 0.5, 800)
BOPM( OptPx(o, r=0.05, q=0.02, vol=0.2, NSteps=1000), IncBT=FALSE)
```

See Also

[BOPM_Eu](#) for European option via vectorized approach.

BOPM_Eu

European option valuation (vectorized computation).

Description

A helper function to price European options via a vectorized (fast, memory efficient) approach.

Usage

```
BOPM_Eu(o = OptPx())
```

Arguments

o An OptPx object

Value

A list of class OptPx with an element PxBT, which is an option price value (type double, class numeric)

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015 Code adopted Gilli & Schumann's R implementation to Opt* objects

References

Gili, M. and Schumann, E. (2009) *Implementing Binomial Trees*, COMISEF Working Papers Series

See Also

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1341181 for original paper, [BOPM](#) for American option pricing.

Examples

```
#Fig.13.11, Hull/9e/p291:
o = Opt(Style='European', Right='Call', S0=810, ttm=.5, K=800)
(o <- BOPM_Eu( OptPx(o, r=.05, q=.02, vol=.2, NSteps=2)))$PxBT

o = Opt('Eu', 'C', 0.61, .5, 0.6, SName='USD/AUD')
o = OptPx(o, r=.05, q=.02, vol=.12, NSteps=2)
(o <- BOPM_Eu(o))$PxBT
```

BS

Black-Scholes (BS) pricing model

Description

a wrapper function for BS_Simple; uses OptPx object as input.

Usage

```
BS(o = OptPx())
```

Arguments

o An OptPx object

Value

An original OptPx object with BS list as components of Black-Scholes formular. See BS_Simple.

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>. <http://amzn.com/0133456315>

Examples

```
#See Hull, p.338, Ex.15.6. #Create an option and price it
o = Opt(Style='Eu', Right='Call', S0 = 42, ttm = .5, K = 40)
o = BS( OptPx(o, r=.1, vol=.2, NSteps=NA))
o$PxBS #print call option price computed by Black-Scholes pricing model
o$BS$Px$Put #print put option price computed by Black-Scholes pricing model
```

BS_Simple

*Black-Scholes formula***Description**

Black-Scholes (aka Black-Scholes-Merton, BS, BSM) formula for simple parameters

Usage

```
BS_Simple(S0 = 42, K = 40, r = 0.1, q = 0, ttm = 0.5, vol = 0.2)
```

Arguments

| | |
|-----|---|
| S0 | The spot price of the underlying security |
| K | The strike price of the underlying (same currency as S0) |
| r | The annualized risk free interest rate, as annual percent / 100 (i.e. fractional form. 0.1 is 10 percent per annum) |
| q | The annualized dividend yield, same units as r |
| ttm | The time to maturity, fraction of a year (annualized) |
| vol | The volatility, in units of standard deviation. |

Details

Uses BS formula to calculate call/put option values and elements of BS model

Value

a list of BS formula elements and BS price, such as d1 for d_1 , d2 for d_2 , Nd1 for $N(d_1)$, Nd2 for $N(d_2)$, NCallPxBS for BSM call price, PutPxBS for BSM put price

Author(s)

Robert Abramov, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>. <http://amzn.com/0133456315>
<http://www.theresearchkitchen.com/archives/106>

Examples

```
#See Hull p.339, Ex.15.6.
(o <- BS_Simple(S0=42,K=40,r=.1,q=0,ttm=.5,vol=.2))$Px$Call #returns 4.759422
o$Px$Put # returns 0.8085994 as the price of the put

BS_Simple(100,90,0.05,0,2,0.30)
BS_Simple(50,60,0.1,.2,3,0.25)
BS_Simple(90,90,0.15,0,.5,0.20)
BS_Simple(15,15,.01,0.0,0.5,.5)
```

 ChooserBS

Chooser option valuation via Black-Scholes (BS) model

Description

Compute an exotic option that allow the holder decide the option will be a call or put option at some predetermined future date. In a simple case, both put and call option are plain vanilla option. The value of the simple chooser option is $\max C(S, K, t_1), P(S, K, t_2)$. The plain vanilla option is calculated based on the BS model.

Usage

```
ChooserBS(o = OptPx(Opt(Style = "Chooser")), t1 = 9/12, t2 = 3/12)
```

Arguments

| | |
|----|---|
| o | An object of class OptPx |
| t1 | The time to maturity of the call option, measured in years. |
| t2 | The time to maturity of the put option, measured in years. |

Value

A list of class SimpleChooserBS consisting of the original OptPx object and the option pricing parameters t1, t2, as well as the computed price PxBS.

Author(s)

Le You, Department of Statistics, Rice University, spring 2015

References

- Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>
- Huang Espen G., *Option Pricing Formulas*, 2ed. <http://down.cenet.org.cn/upfile/10/20083212958160.pdf>
- Wee, Lim Tiong, MFE5010 *Exotic Options, Notes for Lecture 4 Chooser option*. <http://www.stat.nus.edu.sg/~stalimtw/MFE5010/PDF/L4chooser.pdf>
- Humphreys, Natalia A., ACTS 4302 Principles of Actuarial Models: Financial Economics. *Lesson 14: All-or-nothing, Gap, Exchange and Chooser Options*.

Examples

```
(o = ChooserBS())$PxBS

o = Opt(Style='Chooser',Right='Other',S0=50, K=50)
(o = ChooserBS(OptPx(o, r=0.06, q=0.02, vol=0.2),9/12, 3/12))$PxBS

o = Opt(Style='Chooser',Right='Other',S0=50, K=50)
(o = ChooserBS (OptPx(o,r=0.08, q=0, vol=0.25),1/2, 1/4))$PxBS

o = Opt(Style='Chooser',Right='Other',S0=100, K=50)
(o = ChooserBS(OptPx(o,r=0.08, q=0.05, vol=0.3),1/2, 1/4))$PxBS
```

ChooserLT

Chooser option valuation via Lattice Tree (LT) Model

Description

Calculates the price of a Chooser option using a recombining binomial tree model. Has pricing capabilities for both simple European Chooser options as well as American Chooser Options, where exercise can occur any time as a call or put options.

Usage

```
ChooserLT(o = OptPx(Opt("Chooser", ttm = 1)), t1 = 0.5, t2 = 0.5,
  IncBT = FALSE)
```

Arguments

- o The OptPx option object to price.
- t1 The time to maturity of the call option, measured in years.
- t2 The time to maturity of the put option, measured in years.
- IncBT TRUE/FALSE Choice of including the lattice tree simulation in the output. Input FALSE yields faster computation and fewer calculated results to store in memory.

Details

The American chooser option is interpreted as exercise of option being available at any point in time during the life of the option.

Value

An original OptPx object with PxLT field as the price of the option and user-supplied ttc, IncBT parameters attached.

Author(s)

Richard Huang, Department of Statistics, Rice University, spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>

Thomas S.Y. Ho et al., *The Oxford Guide to Financial Modeling : Applications for Capital Markets*.

..

Examples

```
(o = ChooserLT())$PxLT #Default Chooser option price. (See Ho pg 234 in references)
```

```
o = Opt('Eu', S0=100, ttm=1, K=100)
o = OptPx(o, r=0.10, q=0, vol=0.1, NSteps=5)
(o = ChooserLT(o, t1 = .5, t2 = .5, IncBT=TRUE))$PxLT
```

```
#American Chooser, higher price than European equivalent
o = Opt('Am', S0=100, ttm=1, K=100)
o = OptPx(o, r=0.10, q=0, vol=0.1, NSteps=5)
ChooserLT(o,t1=.5, t2=.5,IncBT=FALSE)$PxLT
```

```
o = Opt('Eu', S0=50, ttm=1, K=50)
o = OptPx(o, r=0.05, q=0.02, vol=0.25, NSteps=5)
ChooserLT(o, t1 = .75, t2 = .75, IncBT=FALSE)$PxLT
```

```
o = Opt('Eu', S0=50, ttm=1, K=50)
o = OptPx(o, r=0.05, q=0.5, vol=0.25, NSteps=5)
ChooserLT(o, t1 = .75, t2 = .75, IncBT=FALSE)$PxLT
```

ChooserMC

Chooser option valuation via Monte Carlo (MC) simulations

Description

Price chooser option using Monte Carlo (MC) simulation.

Usage

```
ChooserMC(o = OptPx(Opt(Style = "Chooser")), isEu = TRUE, T1 = 1,
  NPaths = 5, plot = FALSE)
```

Arguments

| | |
|--------|---|
| o | An object of class OptPx |
| isEu | Values TRUE or FALSE indicating if the chooser is an European or American style option |
| T1 | The time when the choice is made whether the option is a call or put |
| NPaths | The number of Monte Carol simulation paths |
| plot | Values TRUE or FALSE indicating whether to include a comparison plot of option price versus number of paths |

Details

A chooser option (sometimes referred to as an as you like it option) has the feature that, after a specified period of time, the holder can choose whether the option is a call or a put. In this algorithm, we can price chooser options when the underlying options are both European or are both American. When the underlying is an American option, the option holder can exercise before and after T1.

Value

A list of class ChooserMC consisting of original OptPx object, option pricing parameters isEu, NPaths, and T1, as well as the computed price PxMC for the chooser option.

Author(s)

Xinnan Lu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. p.603.

Examples

```
(o = ChooserMC())$PxMC

o = OptPx(Opt(Right='Call', Style="Chooser"))
  ChooserMC(o, isEu=TRUE, NPaths=5, plot=TRUE)

o = OptPx(Opt(Right='Put', Style="Chooser"))
  ChooserMC(o, isEu=TRUE, NPaths=5, plot=TRUE)

o = Opt(Right='C', S0=100, K=110, ttm=4, Style="Chooser")
o = OptPx(o, vol=0.2, r=0.05, q=0.04)
  ChooserMC(o, isEu=TRUE, T1=2, NPaths=5)

o = Opt(Right='P', S0=110, K=100, ttm=4, Style="Chooser")
o = OptPx(o, vol=0.2, r=0.05, q=0.04)
  ChooserMC(o, isEu=TRUE, T1=2, NPaths=5)

o = Opt(Right='C', S0=50, K=50, ttm=0.5, Style="Ch")
o = OptPx(o, vol=0.25, r=0.08, q=0.1)
  ChooserMC(o, isEu=FALSE, T1=0.25, NPaths=5)
```

Description

Compound option valuation with Black-Scholes (BS) model

Usage

```
CompoundBS(o = OptPx(Opt(Style = "Compound")), K1 = 10, T1 = 0.5,
  Type = c("cc", "cp", "pp", "pc"))
```

Arguments

| | |
|------|--|
| o | = OptPx object |
| K1 | The first Strike Price (of the option on the option) |
| T1 | The time of first expiry (of the option on the option) |
| Type | Possible choices are cc - call option on call option cp - call on put pc - put on call pp - put on put |

Value

A list of object 'OptCompound' containing the option parameters binomial tree parameters and compound option parameters

Author(s)

Robert Abramov

Examples

```
(o <- CompoundBS())$PxBS #price compound option with default parameters
```

```
o = OptPx(Opt(Style='Compound'), r=0.05, q=0.0, vol=0.25)
CompoundBS(o,K1=10,T1=0.5)
```

```
o = Opt(Style='Compound', S0=50, K=52, ttm=1)
CompoundBS(o=OptPx(o, r=.05, q=0, vol=.25),K1=6,T1=1.5)
```

```
o = Opt(Style='Compound', S0=90, K=100, ttm=1.5)
CompoundBS(o=OptPx(o, r=.05, q=0, vol=.25),K1=15,T1=1)
```

```
o = Opt(Style='Compound', S0=15, K=15, ttm=0.25)
CompoundBS(o=OptPx(o, r=.05, q=0, vol=.25),K1=3,T1=1.5)
```

CompoundLT

Compound option valuation via lattice tree (LT) model

Description

CompoundLT prices a compound option using the binomial tree (BT) method. The inputs it takes are two OptPx objects. It pulls the S from the o2 input which should be the option with the greater time to maturity.

Usage

```
CompoundLT(o1 = OptPx(Opt(Style = "Compound")), o2 = OptPx(Opt(Style =
  "Compound")))
```

Arguments

o1 The OptPx object with the shorter time to maturity
o2 The OptPx object with the longer time to maturity

Value

User-supplied o1 option with fields o2 and PxLT, as the second option and calculated price, respectively.

Author(s)

Kiryl Novikau, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>.

Examples

```
(o = CompoundLT())$PxLT # Uses default arguments

#Put option on a Call:
o = Opt(Style="Compound", S0=50, ttm=.5, Right="P", K = 50)
o1 = OptPx(o, r = .1, vol = .4, NSteps = 5)
o = Opt(Style="Compound", S0=50, ttm=.75, Right="C", K = 60)
o2 = OptPx(o, r = .1, vol = .4, NSteps = 5)
(o = CompoundLT(o1, o2))$PxLT

#Call option on a Call:
o = Opt(Style = "Compound", S0 = 50, ttm = .5, Right = "Call", K = 50)
o1 = OptPx(o, r = .1, vol = .4, NSteps = 5)
o = Opt(Style = "Compound", S0 = 50, ttm = .75, Right = "Call", K = 5)
o2 = OptPx(o, r = .1, vol = .4, NSteps = 5)
(o = CompoundLT(o1, o2))$PxLT

#Put option on a Put:
o = Opt(Style = "Compound", S0 = 50, ttm = .5, Right = "Put", K = 40)
o1 = OptPx(o, r = .1, vol = .4, NSteps = 5)
o = Opt(Style = "Compound", S0 = 50, ttm = .75, Right = "Put", K = 50)
o2 = OptPx(o, r = .1, vol = .4, NSteps = 5)
(o = CompoundLT(o1, o2))$PxMC

#Call option on a Put:
o = Opt(Style = "Compound", S0 = 50, ttm = .5, Right = "Call", K = 30)
o1 = OptPx(o, r = .1, vol = .4, NSteps = 5)
```

```
o = Opt(Style = "Compound", S0 = 50, ttm= .75, Right = "Put", K = 80)
o2 = OptPx(o, r = .1, vol = .4, NSteps = 5)
(o = CompoundLT(o1, o2))$PxLT
```

| | |
|-------------------|--------------------------|
| DeferredPaymentLT | <i>DeferredPaymentLT</i> |
|-------------------|--------------------------|

Description

A binomial tree pricer of a Deferred Payment option. An American option that has payment at expiry no matter when exercise, causing differences in present value (PV) of a payoff.

Usage

```
DeferredPaymentLT(o = OptPx(Opt(Style = "DeferredPayment")))
```

Arguments

o An object of class OptPx

Value

An object of class OptPx with price included

Author(s)

Max Lee, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>

Examples

```
(o = DeferredPaymentLT())$PxLT

o = Opt(Style='DeferredPayment', Right="Call", S0=110,ttm=.5,K=110)
(o = DeferredPaymentLT(OptPx(o,r=.05,q=.04,vol=.2,NSteps=5)))$PxLT

o = Opt(Style='DeferredPayment', Right="Put", S0 = 50, ttm=2,K=47)
(o = DeferredPaymentLT(OptPx(o,r=.05,q=.04,vol=.25,NSteps=3)))$PxLT
```

ForeignEquityBS *ForeignEquity option valuation via Black-Scholes (BS) model*

Description

ForeignEquity Option via Black-Scholes (BS) model

Usage

```
ForeignEquityBS(o = OptPx(Opt(Style = "ForeignEquity")), I1 = 1540,
  I2 = 1/90, sigma1 = 0.14, sigma2 = 0.18, g1 = 0.02, rho = -0.3,
  Type = c("Foreign", "Domestic"))
```

Arguments

| | |
|--------|--|
| o | An object of class OptPx |
| I1 | A spot price of the underlying security 1 (usually I1) |
| I2 | A spot price of the underlying security 2 (usually I2) |
| sigma1 | a vector of implied volatilities for the associated security 1 |
| sigma2 | a vector of implied volatilities for the associated security 2 |
| g1 | is the payout rate of the first stock |
| rho | is the correlation between asset 1 and asset 2 |
| Type | ForeignEquity option type: 'Foreign' or 'Domestic' |

Details

Two types of ForeignEquity options are priced: 'Foreign' and 'Domestic'. See "Exotic Options", 2nd, Peter G. Zhang for more details.

Value

A list of class ForeignEquityBS consisting of the original OptPx object and the option pricing parameters I1,I2, Type, isForeign, and isDomestic as well as the computed price PxBS.

Author(s)

Chengwei Ge, Department of Statistics, Rice University, 2015

References

Zhang, Peter G. *Exotic Options*, 2nd, 1998.

Examples

```

o = OptPx(Opt(Style = 'ForeignEquity', Right = "Put"), r= 0.03)
ForeignEquityBS(o, I1=1540, I2=1/90, g1=.02, sigma1=.14,sigma2=0.18, rho=.03,Type='Foreign')

o = OptPx(Opt(Style = 'ForeignEquity', Right = "Put", ttm=9/12, K=1600), r=.03)
ForeignEquityBS(o, I1=1540, I2=1/90, g1=.02, sigma1=.14,sigma2=0.18, rho=0.03,Type='Foreign')

o = OptPx(Opt(Style = 'ForeignEquity', Right = "C", ttm=9/12, K=1600), r=.03)
ForeignEquityBS(o, I1=1540, I2=1/90, g1=.02, sigma1=.14,sigma2=0.18, rho=0.03,Type='Foreign')

o = OptPx(Opt(Style = 'ForeignEquity', Right = "C", ttm=9/12, K=1600), r=.03)
ForeignEquityBS(o, I1=1540, I2=1/90, g1=.02, sigma1=.14,sigma2=0.18, rho=0.03,Type='Domestic')

o = OptPx(Opt(Style = 'ForeignEquity', Right = "P", ttm=9/12, K=1600), r=.03)
ForeignEquityBS(o, I1=1540, I2=1/90, g1=.02, sigma1=.14,sigma2=0.18, rho=0.03,Type='Domestic')

```

ForwardStartBS

ForwardStart option valuation via Black-Scholes (BS) model

Description

Compute the price of Forward Start options using BSM. A forward start option is a standard European option whose strike price is set equal to current asset price at some prespecified future date. Employee incentive options are basically forward start option

Usage

```
ForwardStartBS(o = OptPx(Opt(Style = "ForwardStart")), tts = 0.1)
```

Arguments

o an OptPx object including basic information of an option
tts Time to start of the option (in years)

Details

A standard European option starts at a future time tts.

Value

The original user-supplied OptPX object with price field PxBS and any other provided user-supplied parameters.

Author(s)

Tongyue Luo, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. p.602

Examples

```
(o = ForwardStartBS())$PxBS

o = OptPx(Opt(Style='ForwardStart', Right='Put'))
(o = ForwardStartBS(o))$PxBS
```

 ForwardStartMC

Forward Start option valuation via Monte-Carlo (MC) simulation

Description

S3 object pricing model for a forward start European option using Monte Carlo simulation

Usage

```
ForwardStartMC(o = OptPx(Opt(Style = "ForwardStart")), tts = 0.1,
  NPaths = 5)
```

Arguments

| | |
|---------------------|--|
| <code>o</code> | An object of class <code>OptPx</code> |
| <code>tts</code> | Time to start of the option, in years. |
| <code>NPaths</code> | The number of MC simulation paths. |

Details

A standard European option starts at a future time `tts`.

Value

A list of class `ForwardStartMC` consisting of the input object `OptPx` and the appended new parameters and option price.

Author(s)

Tongyue Luo, Rice University, Spring 2015.

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>.
<http://investexcel.net/forward-start-options/>

Examples

```
(o = ForwardStartMC())$PxMC

o = OptPx(Opt(Style='ForwardStart'), q = 0.03, r = 0.1, vol = 0.15)
(o = ForwardStartMC(o, tts=0.25))$PxMC

ForwardStartMC(o = OptPx(Opt(Style='ForwardStart', Right='Put')))$PxMC
```

GapBS

*Gap option valuation via Black-Scholes (BS) model***Description**

S3 object constructor for price of gap option using BS model

Usage

```
GapBS(o = OptPx(Opt(Style = "Gap", Right = "Put", S0 = 5e+05, K = 4e+05, ttm =
  1, ContrSize = 1, SName =
  "Insurance coverage example #26.1, p.601, OFOD, J.C.Hull, 9ed."), r = 0.05, q
  = 0, vol = 0.2), K2 = 350000)
```

Arguments

o An object of class OptPx

K2 Strike price that determine if the option pays off.

Value

An original OptPx object with PxBS field as the price of the option and user-supplied K2 parameter

Author(s)

Tong Liu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www.mathworks.com/help/fininst/gapbybls.html>

Examples

```
#See J.C.Hull, OFOD'2014, 9-ed, Example 26.1, p.601
(o <- GapBS())$PxBS

GapBS(o=OptPx(Opt(Style='Gap',Right='Put',K=57)))

#See http://www.mathworks.com/help/fininst/gapbybls.html
```

```
o = Opt(Style='Gap',Right='Put',K=57,ttm=0.5,S0=52)
o = GapBS(OptPx(o,vol=0.2,r=0.09),K2=50)

o = Opt(Style='Gap',Right='Put',K=57,ttm=0.5,S0=50)
(o <- GapBS(OptPx(o,vol=0.2,r=0.09),K2=50))$PxBS
```

GapLT

*Gap option valuation via lattice tree (LT) model***Description**

A binomial tree pricer of Gap options that takes the average results for given step sizes in NSteps. Large step sizes should be used for optimal accuracy but may take a minute or so.

Usage

```
GapLT(o = OptPx(Opt(Style = "Gap")), K2 = 60, on = c(100, 200))
```

Arguments

| | |
|----|--|
| o | An object of class OptPx |
| K2 | A numeric strike price above used in calculating if option is in the money or not, known as trigger. |
| on | A vector of number of steps to be used in binomial tree averaging, vector of positive intergers. |

Value

An onject of class OptPx including price

Author(s)

Max Lee, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>.
Humphreys, Natalia. University of Dallas.

Examples

```
(o = GapLT())$PxLT

o = Opt(Style="Gap",Right='Put',S0 = 500000, ttm = 1,K = 400000)
o = OptPx(o,r = .05, q=0, vol = .2)
(o = GapLT(o,K2 = 350000,on=c(498,499,500,501,502)))$PxLT

o = Opt(Style="Gap", Right='Call',S0 = 65, ttm = 1,K = 70)
o = OptPx(o,r = .05, q=.02,vol = .1)
```

Description

GapMC prices a gap option using the MC method. The call payoff is $S_T - K$ when $S_T > K_2$, where K_2 is the trigger strike. The payoff is increased by $K_2 - K$, which can be positive or negative. The put payoff is $K - S_T$ when $S_T < K_2$. Default values are from policyholder-insurance example 26.1, p.601, from referenced OFOD, 9ed, text.

Usage

```
GapMC(o = OptPx(Opt(Style = "Gap", Right = "Put", S0 = 5e+05, K = 4e+05, ttm =
  1, ContrSize = 1, SName =
  "Insurance coverage example #26.1, p.601, OFOD, J.C.Hull, 9ed."), r = 0.05, q
  = 0, vol = 0.2), K2 = 350000, NPaths = 5)
```

Arguments

| | |
|--------|---|
| o | The OptPx object (See OptPx() constructor for more information) |
| K2 | The trigger strike price. |
| NPaths | The number of paths (trials) to simulate. |

Value

An OptPx object. The price is stored under o\$PxMC.

Author(s)

Kiryl Novikau, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8. <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>. p.601

Examples

```
(o = GapMC())$PxMC #example 26.1, p.601

o = Opt(Style='Gap', Right='Call', S0=50, K=40, ttm=1)
o = OptPx(o, vol=.2, r=.05, q = .02)
(o = GapMC(o, K2 = 45, NPaths = 5))$PxMC

o = Opt(Style='Gap', Right='Call', S0 = 50, K = 60, ttm = 1)
o = OptPx(o, vol=.25,r=.15, q = .02)
(o = GapMC(o, K2 = 55, NPaths = 5))$PxMC
```

```

o = Opt(Style='Gap', Right = 'Put', S0 = 50, K = 57, ttm = .5)
o = OptPx(o, vol = .2, r = .09, q = .2)
(o = GapMC(o, K2 = 50, NPaths = 5))$PxMC

o = Opt(Style='Gap', Right='Call', S0=500000, K=400000, ttm=1)
o = OptPx(o, vol=.2,r=.05, q = 0)
(o = GapMC(o, K2 = 350000, NPaths = 5))$PxMC

```

HolderExtendibleBS *Holder Extendible option valuation via Black-Scholes (BS) model*

Description

Computes the price of exotic option (via BS model) which gives the holder the right to extend the option's maturity at an additional premium.

Usage

```
HolderExtendibleBS(o = OptPx(Opt(Style = "HolderExtendible")), k = 105,
  t1 = 0.5, t2 = 0.75, A = 1)
```

Arguments

| | |
|----|--|
| o | An object of class OptPx |
| k | The exercise price of the option at t2, a numeric value. |
| t1 | The time to maturity of the call option, measured in years. |
| t2 | The time to maturity of the put option, measured in years. |
| A | The corresponding asset price has exceeded the exercise price X. |

Value

The original OptPx object and the option pricing parameters t1, t2,k,A, and computed price PxBS.

Author(s)

Le You, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>
Haug, Espen G., *Option Pricing Formulas*, 2ed.

Examples

```

(o = HolderExtendibleBS())$PxBS

o = Opt(Style='HolderExtendible',Right='Call', S0=100, ttm=0.5, K=100)
o = OptPx(o,r=0.08,q=0,vol=0.25)
(o = HolderExtendibleBS(o,k=105,t1=0.5,t2=0.75,A=1))$PxBS

o = Opt("HolderExtendible","Put", S0=100, ttm=0.5, K=100)
o = OptPx(o,r=0.08,q=0,vol=0.25)
(o = HolderExtendibleBS(o,k=90,t1=0.5,t2=0.75,A=1))$PxBS

```

is.Opt

Is an object Opt?

Description

Tests the argument for the specific class type.

Usage

```
is.Opt(o)
```

Arguments

o Any object

Value

TRUE if and only if an argument is of Opt class.

Author(s)

Oleg Melnikov

Examples

```

is.Opt(Opt()) #verifies that Opt() returns an object of class \code{Opt}
is.Opt(1:3)  #verifies that code{1:3} is not an object of class \code{Opt}

```

| | |
|-----------|-----------------------------|
| is.OptPos | <i>Is an object OptPos?</i> |
|-----------|-----------------------------|

Description

Tests the argument for the specific class type.

Usage

```
is.OptPos(o)
```

Arguments

o Any object

Value

TRUE if and only if an argument is of OptPos class.

Author(s)

Oleg Melnikov

Examples

```
is.OptPos(OptPos())
```

| | |
|----------|----------------------------|
| is.OptPx | <i>Is an object OptPx?</i> |
|----------|----------------------------|

Description

Tests the argument for the specific class type.

Usage

```
is.OptPx(o)
```

Arguments

o Any object

Value

TRUE if and only if an argument is of OptPx class.

Author(s)

Oleg Melnikov

Examples

```
is.OptPx(OptPx(Opt(S0=20), r=0.12))
```

LadderMC

Ladder option valuation via Monte Carlo (MC) simulation.

Description

Calculates the price of a Ladder Option using 5000 Monte Carlo simulations. The helper function LadderCal() aims to calculate expected payout for each stock prices.

Important Assumptions: The option `o` follows a General Brownian Motion (BM) $ds = \mu * S * dt + \text{sqrt}(\text{vol}) * S * dW$ where $dW \sim N(0, 1)$. The value of μ (the expected price increase) is assumed to be `o.r`, the risk free rate of return.

Usage

```
LadderMC(o = OptPx(o = Opt(Style = "Ladder"), NSteps = 5), NPaths = 5,
  L = c(60, 80, 100))
```

Arguments

| | |
|---------------------|--|
| <code>o</code> | The OptPx Ladder option object to price. |
| <code>NPaths</code> | The number of simulation paths to use in calculating the price |
| <code>L</code> | A series of ladder strike price. |

Value

The option `o` with the price in the field `PxMC` based on MC simulations and the ladder strike price `L` set by the users themselves

Author(s)

Huang Jiayao, Risk Management and Business Intelligence at Hong Kong University of Science and Technology, Exchange student at Rice University, Spring 2015

References

<http://stackoverflow.com/questions/25946852/r-monte-carlo-simulation-price-path-converging-volatil>

Examples

```
(o = LadderMC())$PxMC #Price = ~12.30

o = OptPx(o=Opt(Style='Ladder'), NSteps = 5)
(o = LadderMC(o))$PxMC      #Price = ~11.50

o = OptPx(Opt(Style='Ladder', Right='Put'))
(o = LadderMC(o, NPaths = 5))$PxMC  # Price = ~12.36

(o = LadderMC(L=c(55,65,75)))$PxMC  # Price = ~10.25
```

 LookbackBS

Lookback option valuation with Black-Scholes (BS) model

Description

Calculates the price of a lookback option using a BSM-adjusted algorithm; Carries the assumption that the asset price is observed continuously.

Usage

```
LookbackBS(o = OptPx(Opt(Style = "Lookback")), Smax = 50, Smin = 50,
  Type = c("Floating", "Fixed"))
```

Arguments

| | |
|-------------------|--|
| <code>o</code> | An object of class <code>OptPx</code> . |
| <code>Smax</code> | The maximum asset price observed to date. |
| <code>Smin</code> | The minimum asset price observed to date. |
| <code>Type</code> | Specifies the Lookback option as either Floating or Fixed- default argument is Floating. |

Details

To price the lookback option, we require the `Smax/Smin`, `S0`, `r`, `q`, `vol`, and `ttm` arguments from the object classes defined in the package. An example of a complete `OptLookback` option object can be found in the examples.

Value

An original `OptPx` object with `PxBS` field as the price of the option and user-supplied `Smin`, `Smax`, and `Type` lookback parameters attached.

Author(s)

Richard Huang, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>.

Examples

```
(o = LookbackBS())$PxBS
  LookbackBS(OptPx(Opt(Style = 'Lookback')))) #Uses default arguments

# See Hull 9e Example 26.2, p.608; gives price of 7.79
o = Opt(Style = 'Lookback', S0 = 50, ttm= .25, Right = "Put")
o = OptPx(o,r = .1, vol = .4)
o = LookbackBS(o, Type = "Floating")

# See Hull 9e Example 26.2, p.608; gives price of 8.04
o = Opt(Style = 'Lookback', S0 = 50, ttm= .25, Right = "Call")
o = OptPx(o, r = .1, vol = .4)
o = LookbackBS(o, Type = "Floating")

# Price = 17.7129
o = Opt(Style = 'Lookback', S0 = 50, ttm= 1, Right = "Put", K = 60)
o = OptPx(o,r = .05, q = .02, vol = .25)
o = LookbackBS(o, Type = "Fixed")

# Price = 8.237
o = Opt(Style = 'Lookback', S0 = 50, ttm= 1, Right = "Call", K = 55)
o = OptPx(o,r = .1, q = .02, vol = .25)
o = LookbackBS(o, Type = "Fixed")
```

LookbackMC

Lookback option valuation via Monte Carlo (MC) simulation

Description

Calculates the price of a lookback option using a Monte Carlo (MC) Simulation. Carries the assumption that the asset price is observed continuously. Assumes that the option *o* follows $ds = \mu * S * dt + \text{sqrt}(\text{vol}) * S * dz$ where *dz* is a Wiener Process. Assume that without dividends, μ are default to be *r*.

Usage

```
LookbackMC(o = OptPx(Opt(Style = "Lookback"), r = 0.05, q = 0, vol = 0.3),
  NPaths = 5, div = 1000, Type = c("Floating", "Fixed"))
```

Arguments

o The OptPx option object to price. See OptPx and Opt for more information.
NPaths How many time of the simulation are applied. Coustomer defined.

| | |
|------|--|
| div | number to decide length of each interval |
| Type | Specifies the Lookback option as either Floating or Fixed- default argument is Floating. |

Details

To price the lookback option, we require the S_0 , K , and t_{tm} arguments from object `Opt` and r , q , vol from object `OptPx` defined in the package. The results of simulation would unstable without setting seeds.

Value

A list of class `LookbackMC` consisting of the input object `OptPx` and the price of the lookback option based on Monte Carlo Simulation (see references).

Author(s)

Tong Liu, Department of Statistics, Rice University, Spring 2015

References

Hull, John C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>

Examples

```
(o = LookbackMC())$PxMC #Use default arguments, Output: approximately 16.31.

# Floating & Put
o=OptPx(Opt(S0=50,K=50,ttm=0.25,Right='Put',Style="Lookback"),r=0.1,vol=.4)
LookbackMC(o,NPaths=5,div=1000) #Output: 7.79 from Hull 9e Example 26.2 Pg 608.

# Floating & Call
o=OptPx(Opt(S0=50,K=50,ttm=0.25,Right='Call',Style="Lookback"),r=0.1,vol=.4)
LookbackMC(o,NPaths=5,div=1000) #Output: 8.04 from Hull 9e Example 26.2 Pg 608

# Fixed & Put
o=OptPx(Opt(S0=50,K=60,ttm=1,Right='Put',Style="Lookback"),r=0.05,q=0.02,vol=.25)
LookbackMC(o,Type="Fixed",NPaths=5,div=1000)

# Fixed & Call
o=OptPx(Opt(S0=50,K=55,ttm=1,Right='Call',Style="Lookback"),r=0.1,vol=.25)
LookbackMC(o,Type="Fixed",NPaths=5,div=1000)
```

Opt *Opt object constructor*

Description

An S3 object constructor for an option contract (financial derivative)

Usage

```
Opt(Style = c("European", "American", "Asian", "Binary", "AverageStrike",
  "Barrier", "Chooser", "Compound", "DeferredPayment", "ForeignEquity",
  "ForwardStart", "Gap", "HolderExtendible", "Ladder", "Lookback", "MOPM",
  "Perpetual", "Quotient", "Rainbow", "Shout", "SimpleChooser", "VarianceSwap"),
  Right = c("Call", "Put", "Other"), S0 = 50, ttm = 2, K = 52,
  Curr = "$", ContrSize = 100, SName = "A stock share", SSymbol = "")
```

Arguments

| | |
|-----------|---|
| Style | An option style: European or American. Partial names are allowed, eg. E or A |
| Right | An option right: Call or Put. Partial names are allowed. |
| S0 | A spot price of the underlying security (usually, today's stock price, S_0) |
| ttm | A time to maturity, in units of time matching r units; usually years |
| K | A strike price |
| Curr | An optional currency units for monetary values of the underlying security and an option |
| ContrSize | A contract size, i.e. number of option shares per contract |
| SName | A (optional) descriptive name of the underlying. Eg. <i>Microsoft Corp</i> |
| SSymbol | An (optional) official ticker of the underlying. Eg. <i>MSFT</i> |

Value

A list of class Opt

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

Examples

```
Opt() #Creates an S3 object for an option contract
Opt(Right='Put') #See J. C. Hull, OFOD'2014, 9-ed, Fig.13.10, p.289
```

| | |
|--------|----------------------------------|
| OptPos | <i>OptPos object constructor</i> |
|--------|----------------------------------|

Description

S3 object constructor for lattice-pricing specs of an option contract. Inherits Opt object.

Usage

```
OptPos(o = Opt(), Pos = c("Long", "Short"), Prem = 0)
```

Arguments

| | |
|------|--|
| o | An object of class Opts |
| Pos | A position direction (to the holder) with values Long for owned option contract and Short for shorted contract. |
| Prem | A option premim (i.e. market cost or price), a non-negative amount to be paid for the option contract being modeled. |

Value

A list of class OptPx

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

Examples

```
OptPos() # Creates an S3 object for an option contract
OptPos(Opt(Right='Put')) #See J.C.Hull, OFOD'2014, 9-ed, Fig.13.10, p.289
```

| | |
|-------|---------------------------------|
| OptPx | <i>OptPx object constructor</i> |
|-------|---------------------------------|

Description

An S3 object constructor for lattice-pricing specifications for an option contract. Opt object is inhereted.

Usage

```
OptPx(o = Opt(), r = 0.05, q = 0, rf = 0, vol = 0.3, NSteps = 3)
```

Arguments

| | |
|--------|---|
| o | An object of class Opt |
| r | A risk free rate (annualized) |
| q | A dividend yield (as annualized rate), Hull/p291 |
| rf | A foreign risk free rate (annualized), Hull/p.292 |
| vol | A volatility (as Sd.Dev, sigma) |
| NSteps | A number of time steps in BOPM calculation |

Value

A list of class OptPx with parameters supplied to Opt and OptPx constructors

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

Examples

```
OptPx() #Creates an S3 object for an option contract

#See J.C.Hull, OFOD'2014, 9-ed, Fig.13.10, p.289
OptPx(Opt(Right='Put'))

o = OptPx(Opt(Right='Call', S0=42, ttm=.5, K=40), r=.1, vol=.2)
```

pbnorm

Bivariate Standard Normal CDF

Description

Bivariate Standard Normal CDF Calculator For Given Values of x, y, and rho

Usage

```
pbnorm(x = 0, y = 0, rho = 0)
```

Arguments

| | |
|-----|--|
| x | The x value (want probability under this value of x); values in $(-25, 25)$ |
| y | The y value (want probability under this value of y); values in $(-25, 25)$ |
| rho | The correlation between variables x and y ; values in $[-1, 1]$ |

Details

This runs a bivariate standard normal pdf then calculates the cdf from that based on the input parameters

Value

Density under the bivariate standard normal distribution

Author(s)

Robert Abramov, Department of Statistics, Rice University, 2015

References

Adapted from "Bivariate normal distribution with R", Edouard Tallent's blog from Sep 21, 2012
<https://quantcorner.wordpress.com/2012/09/21/bivariate-normal-distribution-with-r>

Examples

```
pbnorm(1, 1, .5)
#pbnorm(2, 2, 0)
#pbnorm(-1, -1, .35)
#pbnorm(0, 0, 0)

ttl = 'cdf of x, at y=0'
X = seq(-5,5,1)
graphics::plot(X, sapply(X, function(x) pbnorm(0,x,0)), type='l', main=ttl)
```

 PerpetualBS

Perpetual option valuation via Black-Scholes (BS) model

Description

An exotic option is an option which has features making it more complex than commonly traded options. A perpetual option is non-standard financial option with no fixed maturity and no exercise limit. While the life of a standard option can vary from a few days to several years, a perpetual option (XPO) can be exercised at any time. Perpetual options are considered an American option. European options can be exercised only on the option's maturity date.

Usage

```
PerpetualBS(o = OptPx(Opt(Style = "Perpetual"), q = 0.1))
```

Arguments

o AN object of class OptPx

Value

A list of class Perpetual .BS consisting of the input object OptPx

Author(s)

Kim Raath, Department of Statistics, Rice University, Spring 2015.

References

Chi-Guhn Lee, *The Black-Scholes Formula*, Courses, Notes, Note2, Sec 1.5 and 1.6 <http://www.mie.utoronto.ca/courses/mie566f/materials/note2.pdf>

Examples

```
#Perpetual American Call and Put
#Verify pricing with \url{http://www.coggit.com/freetools}
(o <- PerpetualBS())$PxBS # Approximately valued at $8.54

#This example should produce approximately $33.66
o = Opt(Style="Perpetual", Right='Put', S0=50, K=55)
o = OptPx(o, r = .03, q = 0.1, vol = .4)
(o = PerpetualBS(o))$PxBS

#This example should produce approximately $10.87
o = Opt(Style="Perpetual", Right='Call', S0=50, K=55)
o = OptPx(o, r = .03, q = 0.1, vol = .4)
(o <- PerpetualBS(o))$PxBS
```

| | |
|--------|--------------------------------------|
| Profit | <i>Computes payout/profit values</i> |
|--------|--------------------------------------|

Description

Computes payout/profit values

Usage

```
Profit(o = OptPos(), S = o$S0)
```

Arguments

| | |
|---|---|
| o | An object of class Opt* |
| S | A (optional) vector or value of stock price(s) (double) at which to compute profits |

Value

A numeric matrix of size $[\text{length}(S), 2]$. Columns: stock prices, corresponding option profits

Author(s)

Oleg Melnikov, Department of Statistics, Rice University, Spring 2015

Examples

```
Profit(o=Opt())
graphics::plot( print( Profit(OptPos(Prem=2.5), S=40:60)), type='l'); grid()
```

QuotientBS

*Quotient option valuation via Black-Scholes (BS) model***Description**

Quotient Option via Black-Scholes (BS) model

Usage

```
QuotientBS(o = OptPx(Opt(Style = "Quotient")), I1 = 100, I2 = 100,
  g1 = 0.04, g2 = 0.03, sigma1 = 0.18, sigma2 = 0.15, rho = 0.75)
```

Arguments

| | |
|--------|--|
| o | An object of class OptPx |
| I1 | A spot price of the underlying security 1 (usually I1) |
| I2 | A spot price of the underlying security 2 (usually I2) |
| g1 | Payout rate of the first stock |
| g2 | Payout rate of the 2nd stock |
| sigma1 | a vector of implied volatilities for the associated security 1 |
| sigma2 | a vector of implied volatilities for the associated security 2 |
| rho | is the correlation between asset 1 and asset 2 |

Value

A list of class QuotientBS consisting of the original OptPx object and the option pricing parameters I1,I2, Type, isForeign, and isDomestic as well as the computed price PxBS.

Author(s)

Chengwei Ge, Department of Statistics, Rice University, Spring 2015

References

Zhang Peter G., *Exotic Options*, 2nd, 1998. <http://amzn.com/9810235216>.

Examples

```
(o = QuotientBS())$PxBS

o = OptPx(Opt(Style = 'Quotient', Right = "Put"), r= 0.05)
(o = QuotientBS(o, I1=100, I2=100, g1=0.04, g2=0.03, sigma1=0.18,sigma2=0.15, rho=0.75))$PxBS

o = OptPx(Opt(Style = 'Quotient', Right = "Put", ttm=1, K=1), r= 0.05)
QuotientBS(o, I1=100, I2=100, g1=0.04, g2=0.03, sigma1=0.18,sigma2=0.15, rho=0.75)

o = OptPx(Opt(Style = 'Quotient', Right = "Call", ttm=1, K=1), r= 0.05)
QuotientBS(o, I1=100, I2=100, g1=0.04, g2=0.03, sigma1=0.18,sigma2=0.15, rho=0.75)
```

 QuotientMC

Quotient option valuation via Monte Carlo (MC) model

Description

Calculates the price of a Quotient option using Monte-Carlo simulations.

Usage

```
QuotientMC(o = OptPx(Opt(Style = "Quotient")), S0_2 = 100, NPaths = 5)
```

Arguments

| | |
|---------------------|---|
| <code>o</code> | The <code>OptQuotient</code> option object to price. |
| <code>S0_2</code> | The spot price of the second underlying asset. |
| <code>NPaths</code> | Number of monte-carlo simulations to run. Larger number of trials lower variability at the expense of computation time. |

Details

The Monte-Carlo simulations assume the underlying price undergoes Geometric Brownian Motion (GBM). Payoffs are discounted at risk-free rate to price the option. A thorough understanding of the object class construction is recommended. Please see `OptPx`, `Opt` for more information.

Value

An original `OptPx` object with `Px.MC` field as the price of the option and user-supplied `S0_2`, `NPaths` parameters attached.

Author(s)

Richard Huang, Department of Statistics, Rice University, Spring 2015

References

<http://www.investment-and-finance.net/derivatives/q/quotient-option.html>

Examples

```
(o = QuotientMC())$PxMC #Default Quotient option price.

o = OptPx(Opt(S0=100, ttm=1, K=1.3), r=0.10, q=0, vol=0.1)
(o = QuotientMC(o, S0_2 = 180, NPaths=5))$PxMC

QuotientMC(OptPx(Opt()), S0_2 = 180, NPaths=5)

QuotientMC(OptPx(), S0_2 = 201, NPaths = 5)

QuotientMC(OptPx(Opt(S0=500, ttm=1, K=2)), S0_2 = 1000, NPaths=5)
```

RainbowBS

Rainbow option valuation via Black-Scholes (BS) model

Description

Rainbow Option via Black-Scholes (BS) model

Usage

```
RainbowBS(o = OptPx(Opt(Style = "Rainbow")), S1 = 100, S2 = 95, D1 = 0,
D2 = 0, sigma1 = 0.15, sigma2 = 0.2, rho = 0.75, Type = c("Max",
"Min"))
```

Arguments

| | |
|--------|--|
| o | An object of class OptPx |
| S1 | A spot price of the underlying security 1 (usually S1) |
| S2 | A spot price of the underlying security 2 (usually S2) |
| D1 | A percent yield per annum from the underlying security 1 |
| D2 | A percent yield per annum from the underlying security 2 |
| sigma1 | a vector of implied volatilities for the associated security 1 |
| sigma2 | a vector of implied volatilities for the associated security 2 |
| rho | is the correlation between asset 1 and asset 2 |
| Type | Rainbow option type: 'Max' or 'Min'. |

Details

Two types of Rainbow options are priced: 'Max' and 'Min'.

Value

A list of class RainbowBS consisting of the original OptPx object and the option pricing parameters S1, Type, isMax, and isMin as well as the computed price PxBS.

Author(s)

Chengwei Ge, Department of Statistics, Rice University, Spring 2015

References

Zhang Peter G., *Exotic Options*, 2nd ed, 1998.

Examples

```
(o = RainbowBS())$PxBS

o = OptPx(Opt(Style = 'Rainbow', Right = "Put"), r = 0.08)
RainbowBS(o, S1=100, S2=95, D1=0,D2=0,sigma1=0.15,sigma2=0.2, rho=0.75,Type='Min')

o = OptPx(Opt(Style = 'Rainbow', K = 102, ttm = 1, Right = "Put"), r = 0.08)
RainbowBS(o, S1=100, S2=95, D1=0,D2=0,sigma1=0.15,sigma2=0.2, rho=0.75,Type='Min')

o=OptPx(Opt(Style = 'Rainbow', K = 102, ttm = 1, Right = "Put"), r = 0.08)
RainbowBS(o, S1=100, S2=95, D1=0,D2=0,sigma1=0.15,sigma2=0.2, rho=0.75,Type='Max')

o=OptPx(Opt(Style = 'Rainbow', K = 102, ttm = 1, Right = "Call"), r = 0.08)
RainbowBS(o, S1=100, S2=95, D1=0,D2=0,sigma1=0.15,sigma2=0.2, rho=0.75,Type='Min')

o=OptPx(Opt(Style = 'Rainbow', K = 102, ttm = 1, Right = "Call"), r = 0.08)
RainbowBS(o, S1=100, S2=95, D1=0,D2=0,sigma1=0.15,sigma2=0.2, rho=0.75,Type='Max')
```

ShoutFD

*Shout option valuation via finite differences (FD) method***Description**

Shout option valuation via finite differences (FD) method

Usage

```
ShoutFD(o = OptPx(Opt(Style = "Shout")), N = 100, M = 20, Smin = 0,
        Smax = 100)
```

Arguments

| | |
|-------------------|--|
| <code>o</code> | An object of class <code>OptPx</code> |
| <code>N</code> | The number of equally spaced intervals. Default is 100. |
| <code>M</code> | The number of equally spaced stock price. Default is 20. |
| <code>Smin</code> | similar to <code>Smax</code> |
| <code>Smax</code> | A stock price sufficiently high that, when it is reached, the put option has virtually no value. The level of <code>Smax</code> should be chosen in such a way that one of these equally spaced stock prices is the current stock price. |

Details

A shout option is a European option where the holder can 'shout' to the writer at one time during its life. At the end of the life of the option, the option holder receives either the usual payoff from a European option or the intrinsic value at the time of the shout, whichever is greater. An explicit finite difference method (Page 482 in Hull's book) is used here to price the shout put option. Similar to pricing American options, the value of the option is consolidated at each node of the grid to see if shouting would be optimal. The corresponding shout call option is priced using the Put-Call-Parity in the finite difference method .

Value

A list of class OptPx, including option pricing parameters N, M, Smin, and Smax, as well as the computed option price PxFD.

Author(s)

Xinnan Lu, Department of Statistics, Rice University, 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html> pp.609.

Examples

```
(o = ShoutFD(OptPx(Opt(Right="C", Style="Shout"))))$PxFD

o = OptPx(Opt(Right="C", Style="Shout"))
(o = ShoutFD(o, N=10))$PxFD # very differnt result for N=10

(o = ShoutFD(OptPx(Opt(Right="P", Style="Shout"))))$PxFD

o = Opt(Right='P', S0=100, K=110, ttm=0.5, Style='Shout')
o = OptPx(o, vol=0.2, r=0.05, q=0.04)
(o = ShoutFD(o,N=100,Smax=200))$PxFD

o = Opt(Right="C", S0=110, K=100, ttm=0.5, Style="Shout")
o = OptPx(o, vol=0.2, r=0.05, q=0.04)
(o = ShoutFD(o,N=100,Smax=200))$PxFD
```

ShoutLT

Shout option valuation via lattice tree (LT)

Description

A shout option is a European option where the holder can shout to the writer at one time during its life. At the end of the life of the option, the option holder receives either the usual payoff from a European option or the intrinsic value at the time of the shout, which ever is greater. $\max(0, S_T - S_{tau}) + (S_{tau} - K)$

Usage

```
ShoutLT(o = OptPx(Opt(Style = "Shout")), IncBT = TRUE)
```

Arguments

| | |
|-------|--|
| o | An object of class OptPx |
| IncBT | TRUE/FALSE indicating whether to include binomial tree (list object) with output |

Value

A list of class ShoutLT consisting of the original OptPx object, binomial tree stepBT and the computed price PxBS.

Author(s)

Le You, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>. <http://amzn.com/0133456315>

Examples

```
(o = ShoutLT( OptPx(Opt(Style='Shout'))))$PxLT

o = Opt(Style='Shout', Right='Call', S0=60, ttm=.25, K=60)
ShoutLT( OptPx(o,r=.1, q=.02, vol=.45, NSteps=10))

o = Opt(Style='Shout', Right='Call', S0=60, ttm=.25, K=60)
```

ShoutLTVectorized *Shout option valuation via lattice tree (LT)*

Description

A shout option is a European option where the holder can shout to the writer at one time during its life. At the end of the life of the option, the option holder receives either the usual payoff from a European option or the intrinsic value at the time of the shout, whichever is greater. $\max(0, S_T - S_{tau}) + (S_{tau} - K)$

Usage

```
ShoutLTVectorized(o = OptPx(o = Opt(Style = "Shout")))
```

Arguments

o An object of class OptPx

Value

A list of class ShoutLT consisting of the original OptPx object, binomial tree step BT and the computed price PxBS.

Author(s)

Le You, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>. <http://amzn.com/0133456315>

Examples

```
(o = ShoutLTVectorized( OptPx(Opt(Style='Shout'))))$PxLT

o = Opt(Style='Shout')
(o = ShoutLTVectorized( OptPx(o, r=.1, q=.02, vol=.45, NSteps=10)))$PxLT
```

ShoutMC

Shout option valuation via Monte Carlo (MC) simulations.

Description

Calculates the price of a shout option using Monte Carlo simulations to determine expected payout. Assumes that the option follows a General Brownian Motion (GBM) process, $ds = \mu * S * dt + \text{sqrt}(vol) * S * dW$ where $dW \sim N(0, 1)$. Note that the value of μ (the expected price increase) is assumed to be r , the risk free rate of return.

Usage

```
ShoutMC(o = OptPx(o = Opt(Style = "Shout")), NPaths = 10)
```

Arguments

o The OptPx Shout option to price.
NPaths The number of simulation paths to use in calculating the price; must be ≥ 10

Value

The option object `o` with the price in the field `PxMC` based on the MC simulations.

Author(s)

Jake Kornblau, Department of Statistics, Rice University, 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod/index.html>.
 Also: <http://www.math.umn.edu/~spirn/5076/Lecture16.pdf>

Examples

```
(o = ShoutMC())$PxMC # Approximately valued at $11

o = Opt(Style='Shout')
(o = ShoutMC(OptPx(o, NSteps = 5)))$PxMC # Approximately valued at $18.6

o = Opt(Style='Shout', S0=110, K=100, ttm=.5)
o = OptPx(o, r=.05, vol=.2, q=0, NSteps = 10)
(o = ShoutMC(o, NPaths = 10))$PxMC
```

VarianceSwapBS

Variance Swap valuation via Black-Scholes (BS) model

Description

Variance Swap valuation via Black-Scholes (BS) model

Usage

```
VarianceSwapBS(o = OptPx(Opt(Style = "VarianceSwap", Right = "Other", ttm =
  0.25, S0 = 1020), r = 0.04, q = 0.01), K = seq(800, 1200, 50),
  Vol = seq(0.2, 0.24, 0.005), notional = 10^8, varrate = 0.045)
```

Arguments

| | |
|----------|--|
| o | An object of class OptPx |
| K | A vector of non-negative strike prices |
| Vol | a vector of non-negative, less than zero implied volatilities for the associated strikes |
| notional | A numeric positive amount to be invested |
| varrate | A numeric positive variance rate to be swapped |

Value

An object of class OptPx with value included

Author(s)

Max Lee, Department of Statistics, Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>.

Examples

```

(o = VarianceSwapBS())$PxBS

o = Opt(Style="VarianceSwap",Right="Other",ttm=.25,S0=1020)
o = OptPx(o,r=.04,q=.01)
Vol = Vol=c(.29,.28,.27,.26,.25,.24,.23,.22,.21)
(o = VarianceSwapBS(o,K=seq(800,1200,50),Vol=Vol,notional=10^8,varrate=.045))$PxBS

o = Opt(Style="VarianceSwap",Right="Other",ttm=.25,S0=1020)
o = OptPx(o,r=.04,q=.01)
Vol=c(.2,.205,.21,.215,.22,.225,.23,.235,.24)
(o =VarianceSwapBS(o,K=seq(800,1200,50),Vol=Vol,notional=10^8,varrate=.045))$PxBS

o = Opt(Style="VarianceSwap",Right="Other",ttm=.1,S0=100)
o = OptPx(o,r=.03,q=.02)
Vol=c(.2,.19,.18,.17,.16,.15,.14,.13,.12)
(o =VarianceSwapBS(o,K=seq(80,120,5),Vol=Vol,notional=10^4,varrate=.03))$PxBS

```

VarianceSwapMC

VarianceSwap option valuation via Monte Carlo (MC) simulation.

Description

Calculates the price of a VarianceSwap Option using 500 Monte Carlo simulations.

Important Assumptions: The option o follows a General Brownian Motion $ds = \mu * S * dt + \sqrt{vol} * S * dW$ where $dW \sim N(0, 1)$. The value of μ (the expected price increase) is assumed to be $r - q$.

Usage

```
VarianceSwapMC(o = OptPx(o = Opt(Style = "VarianceSwap")), var = 0.2,
  NPaths = 5)
```

Arguments

| | |
|---------------------|---|
| <code>o</code> | The OptPx Variance Swap option to price. |
| <code>var</code> | The variance strike level |
| <code>NPaths</code> | The number of simulation paths to use in calculating the price, |

Value

The option o with the price in the field `PxMC` based on MC simulations and the Variance Swap option properties set by the users themselves

Author(s)

Huang Jiayao, Risk Management and Business Intelligence at Hong Kong University of Science and Technology, Exchange student at Rice University, Spring 2015

References

Hull, J.C., *Options, Futures and Other Derivatives*, 9ed, 2014. Prentice Hall. ISBN 978-0-13-345631-8, <http://www-2.rotman.utoronto.ca/~hull/ofod>.
<http://stackoverflow.com/questions/25946852/r-monte-carlo-simulation-price-path-converging-volatil>

Examples

```
(o = VarianceSwapMC())$PxMC #Price = ~0.0245
```

```
(o = VarianceSwapMC(NPaths = 5))$PxMC # Price = ~0.0245
```

```
(o = VarianceSwapMC(var=0.4))$PxMC # Price = ~-0.1565
```

Index

as.OptPos, 3
AsianBS, 4
AsianMC, 5
AverageStrikeMC, 6

BarrierBS, 7
BarrierLT, 8
BarrierMC, 10
Binary_BOPM, 13
BinaryBS, 11
BinaryMC, 12
BOPM, 14, 16
BOPM_Eu, 15, 15
BS, 16
BS_Simple, 17

ChooserBS, 18
ChooserLT, 19
ChooserMC, 20
CompoundBS, 21
CompoundLT, 22

DeferredPaymentLT, 24

ForeignEquityBS, 25
ForwardStartBS, 26
ForwardStartMC, 27

GapBS, 28
GapLT, 29
GapMC, 30

HolderExtendibleBS, 31

is.Opt, 32
is.OptPos, 33
is.OptPx, 33

LadderMC, 34
LookbackBS, 35
LookbackMC, 36

Opt, 38
OptPos, 39
OptPx, 39

pbnorm, 40
PerpetualBS, 41
Profit, 42

QuotientBS, 43
QuotientMC, 44

RainbowBS, 45

ShoutFD, 46
ShoutLT, 47
ShoutLTVectorized, 48
ShoutMC, 49

VarianceSwapBS, 50
VarianceSwapMC, 51