Lab Week 4 - Option Pricing in the Heston model

Familiarise yourself with the Matlab code presented in Moodley (2006) to price options in the Heston model. You do not need to understand the code in detail at present, but be able to confidently use it to price options. Use this code to compute a range of option prices for different strikes and maturities and plot the implied volatility surface obtained from these (similar as in the lab week 2, where market prices have been used instead). Can you observe a volatility smile?

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