

INTEREST RATES MODELS

Homework assignment #6

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Problems

1. Show that, under the spot measure, the LMM dynamics has the form given by formula (6) of Lecture Notes #7. Note: you should follow the logic of the calculation that we discussed in class (that was done for the forward measure), with the appropriate numeraire replacing the zero coupon bonds.
2. Prove the identity stated in formula (32) of Lecture Notes #8.
3. Show that the dynamics of LMM satisfies the integrability condition (31) (or (30)) of Lecture Notes #8, and it thus can be numerically implemented by means of Milstein's scheme.

This assignment is due on April 20.