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cf_vasicek1d_zcbond

Output parameters:

- Price

The stochastic differential equation representing the the short rate is given by

$$dr_t = k(\theta - r_t)dt + \sigma dW(t)$$

The price of the zero-coupon bond is given by

$$P(t, T) = A(t, T)e^{-B(t, T)r(t)}.$$

where

$$A(t, T) = e^{(\theta - \frac{\sigma^2}{2k^2})(B(t, T) - T + t) - \frac{\sigma^2}{4k}B(t, T)^2}$$

and

$$B(t, T) = \frac{1}{k}(1 - e^{-k(T-t)})$$

References