Help

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#include <stdlib.h>
#include  "vasicek1d_stdi.h"

/*Product*/
static double dt,dr,r_min,r_max;
static double *r_vect,*disc,**Option_Price,**Ps;
static double *pu,*pm,*pd;
static long Ns,NtO;



/*Memory Allocation*/
static void memory_allocation(long Nt)
{
  int i;

  if((r_vect = malloc(sizeof(double)*(Ns+1)))==NULL)
    {
      printf("Allocation error");
      exit(1);
    }
  if((disc = malloc(sizeof(double)*(Ns+1)))==NULL)
    {
      printf("Allocation error");
      exit(1);
    }
  if((pu = malloc(sizeof(double)*(Ns+1)))==NULL)
    {
      printf("Allocation error");
      exit(1);
    }
  if((pm = malloc(sizeof(double)*(Ns+1)))==NULL)
    {
      printf("Allocation error");
      exit(1);
    }if((pd = malloc(sizeof(double)*(Ns+1)))==NULL)
       {
   printf("Allocation error");
   exit(1);
       }
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  if ((Ps = malloc(sizeof(double *)*(Nt+1))) ==NULL)
    {
      printf("Allocation error");
      exit(1);
    }
  if ((Option_Price = malloc(sizeof(double *)*(Nt+1))) ==
    NULL)
    {
      printf("Allocation error");
      exit(1);
    }
  for(i=0;i<=Nt;i++){
    Option_Price[i] = malloc(sizeof(double)*(Ns+1));
  }
  for(i=0;i<=Nt;i++){
    Ps[i] = malloc(sizeof(double)*(Ns+1));
  }


  return;
}

/*Memory Desallocation*/
static void free_memory(long Nt)
{
  int i;

  free(r_vect);
  free(pu);
  free(pm);
  free(pd);
  free(disc);

  for (i=0;i<Nt+1;i++)
    free(Ps[i]);
  free(Ps);

  for (i=0;i<Nt+1;i++)
    free(Option_Price[i]);
  free(Option_Price);
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  return;
}

/*Compute probabilities*/
static int init_prob(double k,double sigma,double theta,
    double T,double t0,long Nt)
{
  double df;
  int j;

  /*Time and Space Step*/
  dt=(T-t0)/(double)Nt;
  dr=sigma*sqrt(3.*dt);

  /*Localization*/
  r_min=theta-dr/(2.*k*dt);
  r_max=theta+dr/(2.*k*dt);
  Ns=(int)ceil((r_max-r_min)/dr);
  memory_allocation(Nt);

  /*Compute probabilities*/
  for(j=0;j<=Ns;j++)
    {
      r_vect[j]=r_min+(double)j*dr;
      df=k*(theta-r_vect[j])*dt/dr;
      disc[j]=exp(-r_vect[j]*dt);
      /*Boundary*/
      if(j==0)
        {
    pu[j]=1./6.+(SQR(df)-df)/2.;
    pm[j]=df-2.*pu[j];
    pd[j]=1.-pu[j]-pm[j];
        }
      else if(j==Ns)
        {
    pd[j]=1./6.+(SQR(df)+df)/2.;
    pm[j]=-df-2.*pd[j];
    pu[j]=1.-pd[j]-pm[j];
  }
      /*Not Boundary*/
      else
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        {
    pu[j]=1./6.+(SQR(df)+df)/2.;
    pd[j]=pu[j]-df;
    pm[j]=1.-pu[j]-pd[j];
        }
    }

  return OK;
}

/*Compute Coupon Bearing*/
static int zcb_vasicek(long Nt,int Nt0,double K,double pe
    riodicity,double first_payement,int nb_coupon)
{
  int i,j,z;


  /*Maturity condition*/
  for(j=0;j<=Ns;j++)
    Ps[Nt][j]=1.+K*periodicity;

  /*Dynamic Programming*/
  for(i=Nt-1;i>=Nt0;i--)
    for(j=0;j<=Ns;j++)
      {
  if(j==0)
    Ps[i][j]=disc[j]*(pu[j]*Ps[i+1][j+2]+pm[j]*Ps[i+1][j+1
    ]+pd[j]*Ps[i+1][j]);
  else
    if(j==Ns)
      Ps[i][j]=disc[j]*(pd[j]*Ps[i+1][j-2]+pm[j]*Ps[i+1][
    j-1]+pu[j]*Ps[i+1][j]);
    else
      Ps[i][j]=disc[j]*(pu[j]*Ps[i+1][j+1]+pm[j]*Ps[i+1][
    j]+pd[j]*Ps[i+1][j-1]);

  /*Coupon adjustment*/
  for(z=0;z<nb_coupon;z++)
    {
      if ((i!=0)&&(fabs((double)i*dt-(first_payement+(
    double)z*periodicity))<1.0e-10))
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        {
    Ps[i][j]+=K*periodicity;
        }
    }
      }
  return 1.;
}

/*Swaption=Option on Coupon-Bearing Bond*/
static int swaption_vasicek1d(double r0,double k,double t0,
     double sigma,double theta,double T,double t,NumFunc_1 *p,
    int am,double Nominal,double K,double periodicity,long NtY,
    double *price)
{
  int i,j,nb_coupon,Nt;
  double val,val1,tmp,first_payement;

  /*Compute probabilities*/
  Nt=NtY*(long)((T-t0)/periodicity);
  init_prob(k,sigma,theta,T,t0,Nt);

  /*Number of Step for the Option*/
  NtO=NtY*(long)((t-t0)/periodicity);

  /*Compute Coupon Bearing*/
  first_payement=t+periodicity;
  nb_coupon=(int)((T-first_payement)/periodicity);
  zcb_vasicek(Nt,NtO,K,periodicity,first_payement,nb_
    coupon);

  /*Maturity conditions for the option*/
  tmp=p->Par[0].Val.V_DOUBLE;
  p->Par[0].Val.V_DOUBLE=1.;
  for(j=0;j<=Ns;j++)
    Option_Price[NtO][j]=(p->Compute)(p->Par,Ps[NtO][j]);

  /*Explicit Finite Difference Cycle*/
  for(i=NtO-1;i>=0;i--)
    for(j=0;j<=Ns;j++)
      {
  /*Boundary*/
```

```
  if(j==0)
    Option_Price[i][j]=disc[j]*(pu[j]*Option_Price[i+1][j+
    2]+pm[j]*Option_Price[i+1][j+1]+pd[j]*Option_Price[i+1][j]
    );
  else
    if(j==Ns)
      Option_Price[i][j]=disc[j]*(pd[j]*Option_Price[i+1][
    j-2]+pm[j]*Option_Price[i+1][j-1]+pu[j]*Option_Price[i+1][
    j]);
  /*Not Boundary*/
    else
      Option_Price[i][j]=disc[j]*(pu[j]*Option_Price[i+1][
    j+1]+pm[j]*Option_Price[i+1][j]+pd[j]*Option_Price[i+1][j-1
    ]);
  /*American Case*/
  /*if(am)
    Option_Price[i][j]=MAX(Option_Price[i][j],(p->Compute)
    (p->Par,Ps[i][j]));*/
      }

  /*Linear Interpolation*/
  j=0;
  while(r_vect[j]<r0)
    j++;
  val= Option_Price[0][j];
  val1= Option_Price[0][j-1];

  /*Price*/
  *price=Nominal*(val+(val-val1)*(r0-r_vect[j])/dr);


  /*Memory Disallocation*/
  p->Par[0].Val.V_DOUBLE=tmp;
  free_memory(Nt);


  return OK;
}

int CALC(FD_SWAPTION)(void *Opt,void *Mod,PricingMethod *
    Met)
```

```
{
  TYPEOPT* ptOpt=(TYPEOPT*)Opt;
  TYPEMOD* ptMod=(TYPEMOD*)Mod;


  return swaption_vasicek1d(ptMod->r0.Val.V_PDOUBLE,ptMod->
    k.Val.V_DOUBLE,ptMod->T.Val.V_DATE,ptMod->Sigma.Val.V_PDOUB
    LE,
          ptMod->theta.Val.V_PDOUBLE,ptOpt->BMaturity.
    Val.V_DATE,ptOpt->OMaturity.Val.V_DATE,ptOpt->PayOff.Val.V_
    NUMFUNC_1,
          ptOpt->EuOrAm.Val.V_BOOL,ptOpt->Nominal.Val.V_
    PDOUBLE,ptOpt->FixedRate.Val.V_PDOUBLE,ptOpt->ResetPeriod.
    Val.V_DATE,Met->Par[0].Val.V_LONG,&(Met->Res[0].Val.V_
    DOUBLE));
}


static int CHK_OPT(FD_SWAPTION)(void *Opt, void *Mod)
{

  if ((strcmp(((Option*)Opt)->Name,"PayerSwaption")==0) ||
    (strcmp(((Option*)Opt)->Name,"ReceiverSwaption")==0))
    return OK;
  else
    return WRONG;
}

static int MET(Init)(PricingMethod *Met,Option *Opt)
{
  if ( Met->init == 0)
    {
      Met->init=1;
      Met->Par[0].Val.V_LONG=30;


    }
  return OK;
}

PricingMethod MET(FD_SWAPTION)=
```

```
{
  "FD_Explicit_Vasicek1d_Swaption",
  {{"TimeStepNumber for Period",LONG,{100},ALLOW},
   {" ",PREMIA_NULLTYPE,{0},FORBID}},
  CALC(FD_SWAPTION),
  {{"Price",DOUBLE,{100},FORBID},{" ",PREMIA_NULLTYPE,{0},
    FORBID}},
  CHK_OPT(FD_SWAPTION),
  CHK_ok,
  MET(Init)
} ;
```

References