CQF January 2009
Module 2.5
Live Class: February 20
Lecturer: Paul Wilmott

Binomial Model

In this lecture:

- A simple model for an asset price random walk
- Delta hedging
- No arbitrage
- The basics of the binomial method for valuing options
- Risk neutrality

By the end of this lecture you will be able to

- Understand how hedging is used to eliminate risk
- Use the binomial method to price simple options
- Explain the concept of risk neutrality

Summary

Please take away the following important ideas

- Delta hedging can be used for the elimination of risk
- The binomial method is a simple way to value options
- The concept of risk neutrality, its meaning and use
- The continuous-time limit of the binomial model is the Black–Scholes equation