**Assignment 6 – Derivative Securities**

The assignment is to be done individually. Post your answer and matlab code to t-square.

1. Assume the same parameters of Heston as in LECTURE\_8\_IN\_CLASS. Modify the last part of the code so that you can calibrate sigma(long run volatility) and xi(volatility of volatility) simultaneously.
2. Assume the same parameters of Merton as in LECTURE\_9\_IN\_CLASS except J=0. That is, once Jump arrives the price of stock drops to zero, the price stays at zero forever. Find the price of call option with K=100 and T=2 by modifying Black-Scholes formula.

**The call price is 1.8**