Ghosh's procedure for empirical pricing of a general derivative

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Abstract

In this paper, I describe my procedure for empirical pricing of a general derivative.
The paper ends with "The End"

Introduction

In this paper, I describe my procedure for empirical pricing of a general derivative.
This procedure is to be used only if and when all remaining procedures are either unsuitable or unusable due to insufficient data.

Ghosh's procedure for empirical pricing of a general derivative

Using an adequate sample of past prices, we first regress the specification

$$D = aB + bS + (1 - a - b)LD$$

where
a is the regression coefficient of the national bond index B
b is the regression coefficient of the national stock index S
L is the leverage coefficient of the derivative D
$(1 - a - b)$ is the regression coefficient of the leveraged derivative LD
Note that there is no residual term in the specification.

Then, the empirical price of the general derivative D is

$$D = \frac{aB + bS}{1 + (a + b - 1)L}$$

The End