

Quiz 2 Grading Policies & Solutions

Jiao Li

March 15, 2013

1 Solutions

- See Example 1.3.2 from the textbook Stochastic Calculus for Finance Vol.I (Shreve) pp. 17~18 for solutions to this quiz.

2 Grading Policies

- The quiz has 10 marks in total.
- The lattices for both the stock and the lookback option are optional and grant 1 mark for the effort devoted in the absence of complete answers.
- The risk-neutral probability measure. You must offer the derivation of these probabilities. This is worth 2 marks.
- The functional $v_n(s, m)$ is worth 5 marks. You must explain your answers accordingly and listing only the resulting formula earns 2 marks.
- The value of $v_2(4, 8)$ is worth 3 marks. Presumably you need previous results and thus it will be 1 mark for the resulting number and the rest for your computing procedure.
- If your proof does not help its readers in the sense of comprehensibility you are given no credit.
- THE GRADING POLICIES ARE NOT NEGOTIABLE AND YOUR SCORES ARE FINAL. YOU MAY FILE YOUR QUESTIONS ON THE QUIZ DIRECTLY TO PROF. TSAI.