

Homework 2

For plain vanilla calls and puts, implement the following option pricing methods:

- Basic requirement (80 points):

$$\left\{ \begin{array}{l} \text{Black-Scholes formula (for European options)} \\ \text{Monte Carlo simulation (for European options)} \\ \text{CRR binomial tree model (for both European and American options)} \end{array} \right.$$

(Inputs: S_0 , K , r , q , σ , T , number of simulations, number of repetitions, n . Outputs: Option values for all methods and 95% confidence interval for Monte Carlo simulation.)

- Bonus 1 (5 points):

Implement the CRR binomial tree with one column vector.

- Bonus 2 (5 points):

Implement the combinatorial method to price European options.