

Financial Mathematics

MATH 5870/6870¹
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¹Based on Robert L. McDonald's *Derivatives Markets*, 3rd Ed, Pearson, 2013.

Chapter 10. Binomial Option Pricing: Basic Concepts

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§ 10.1 A one-period Binomial tree

§ 10.2 Constructing a Binomial tree

§ 10.3 Two or more binomial periods

§ 10.4 Put options

§ 10.5 American options

§ 10.6 Options on other assets

§ 10.7 Problems

Binomial option pricing

The
binomial option pricing model
or
Cox-Ross-Rubinstein pricing model
assumes that

the price of the underlying asset follows a binomial distribution,

that is,

the asset price in each period can
move only up or down by a specified amount.

The binomial option pricing model enables us to
determine the price of an option,
given the characteristics of the stock or other underlying asset.

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