

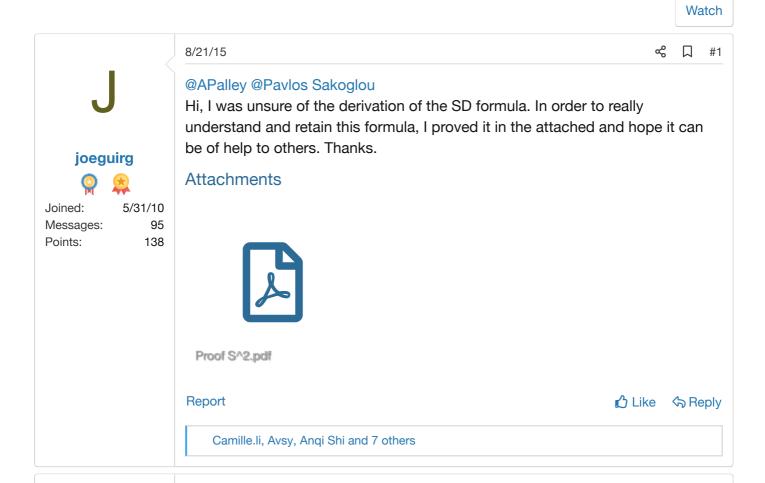
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Group D Proof of SD Formula

△ joeguirg · ○ 8/21/15





Joined: 12/10/09 Messages: 52,327 Points: 1,273 joeguirg said: ①

8/21/15

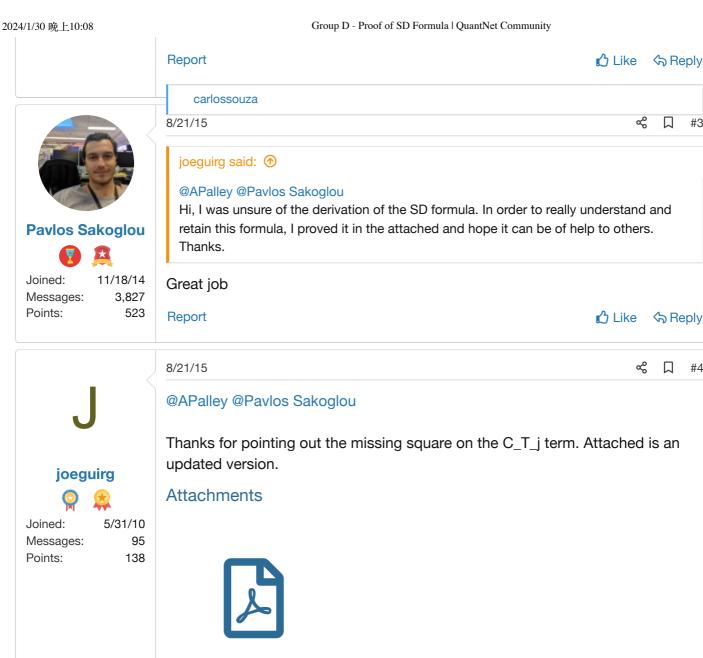
@APalley @Pavlos Sakoglou

Hi, I was unsure of the derivation of the SD formula. In order to really understand and retain this formula, I proved it in the attached and hope it can be of help to others. Thanks.

This is excellent, thank you.

(A minor typo at the end, where you did not square the first C_T_j)

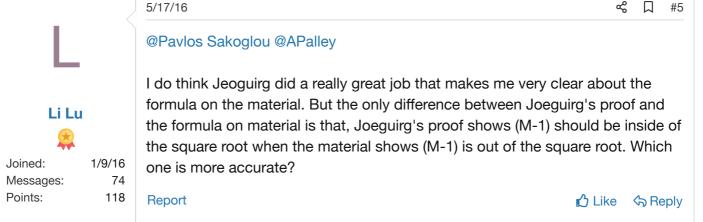
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MikeLawrence, convex, Xin Yue REN and 9 others



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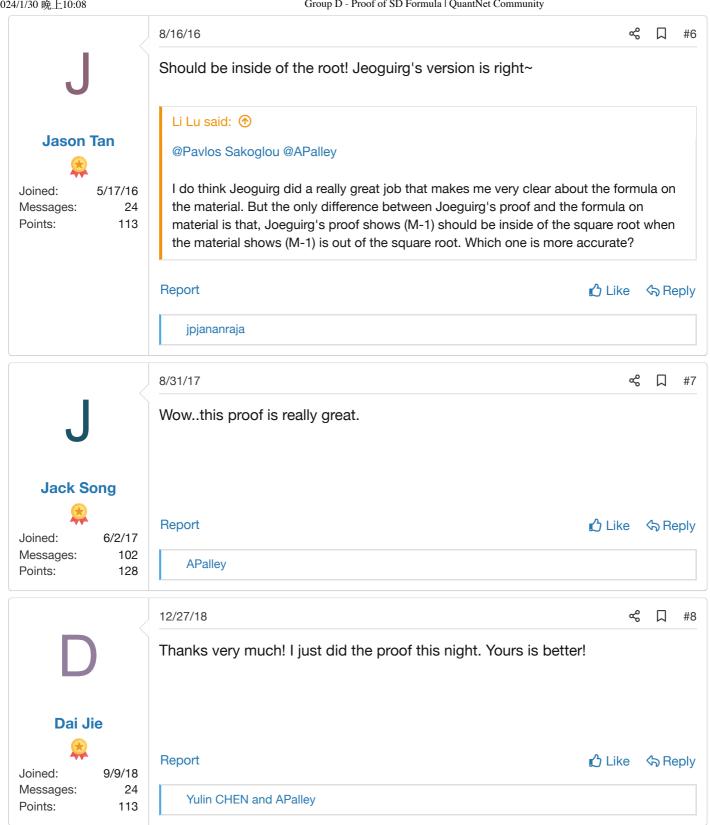
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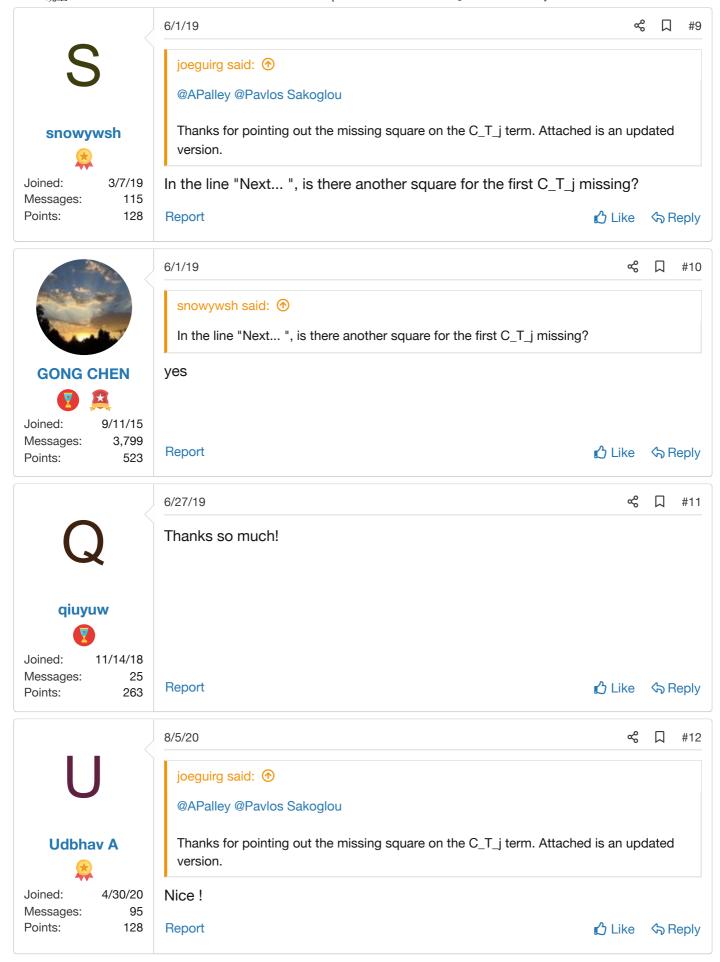
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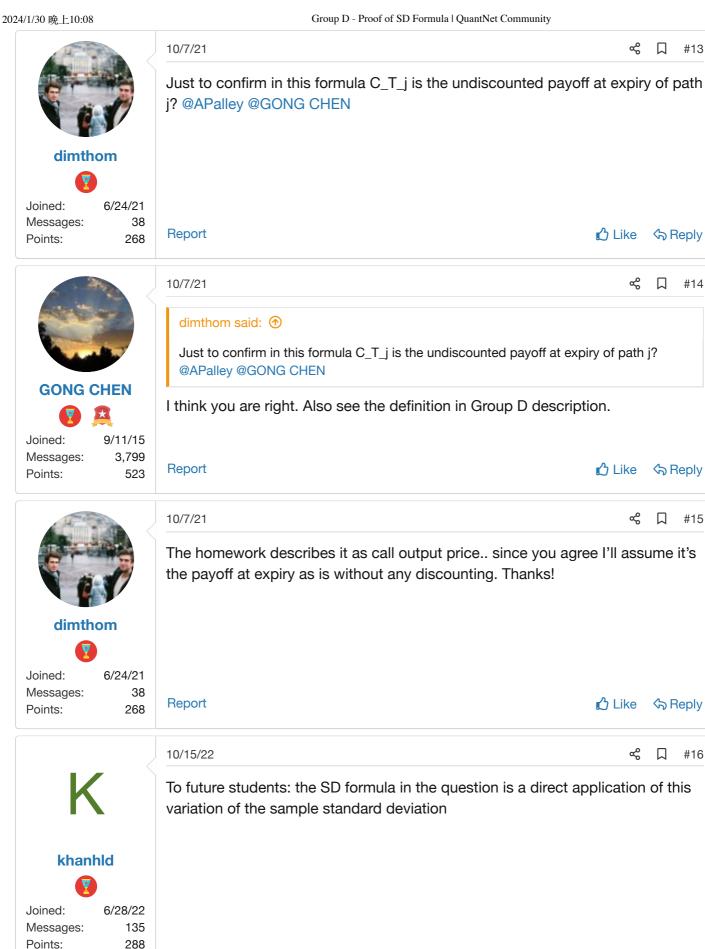
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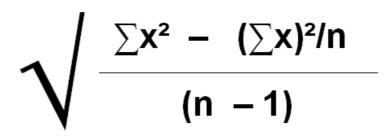
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Eric Kopen



3/15/23 Joined: Messages: 51 Points: 168

khanhld said: ①

To future students: the SD formula in the question is a direct application of this variation of the sample standard deviation

View attachment 45775

Since what we want is the sample standard deviation of the call prices, X is the call prices, i.e. discounted call prices (current prices). Since the given formula in the question uses undiscounted call prices (in the future), we have $X = C_T, j * exp(-rT)$. This explains why we have exp(-rT) at the end of the formula. I hope this is a short and simple explanation of the formula.

This clarification really helped me understand this concept better, thank you for sharing.

Report

8/20/23



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khanhld



Eric Kopen said: ①



This clarification really helped me understand this concept better, thank you for sharing.

khanhld

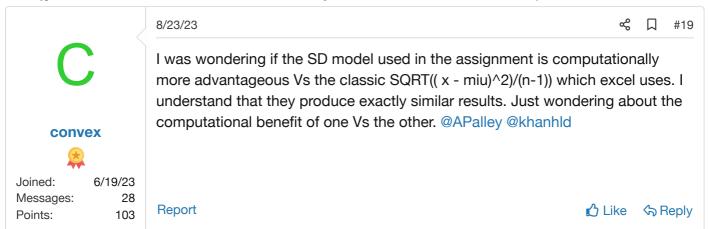


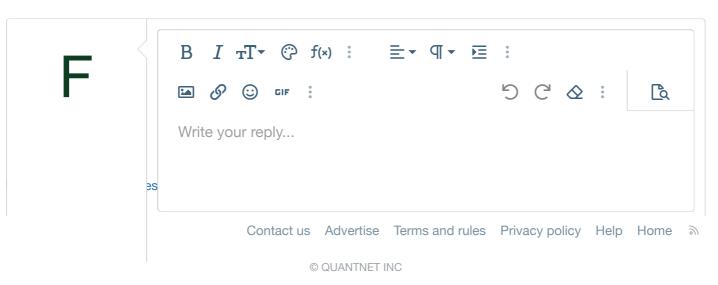
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