2.4

FORWARD VOLATILITY IN THE LV MODEL

Local volatility model is not sensible to the increasing of the time line,

Markets do not expect the flattening of the smile

3.

NO arbitrage theorem:

bounds for the call price are:

(1−k)+ ≤c0(T,k)≤1

Density has to be positive:

−1 ≤ ∂kc0(T,k) ≤ 0 ∂2k c0(T,k) > 0

Calendar arbitrage

∂ c0(T,k)≥0