

## 2.7 Hull-White ESO model

Use a Hull-White ESO model (four steps) to value the following ESO:

$$S = CU8.6$$

$$K = CU8.7$$

$$r_c = 0.06$$

$$t = 2$$

$$\sigma = 0.3$$

$$t_{vest} = 1$$

$$M = 2$$

$$x = 0.06$$

SOLUTION:

$$u = 1.4440.$$

$$d = 0.6925.$$

$$p_u = 0.1769.$$

$$p_m = 0.6667.$$

$$p_d = 0.1564.$$

