

2.7 Hull-White ESO model

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

$$S = CU4.6$$

$$K = CU4.8$$

$$t = 2$$

$$\sigma = 0.4$$

$$t_{vest} = 1$$

$$M = 2$$

$$x = 0.08$$

SOLUTION:

$$u = 1.6321.$$

$$d = 0.6127.$$

$$p_u = 0.1667.$$

$$p_m = 0.6667.$$

$$p_d = 0.1667.$$

