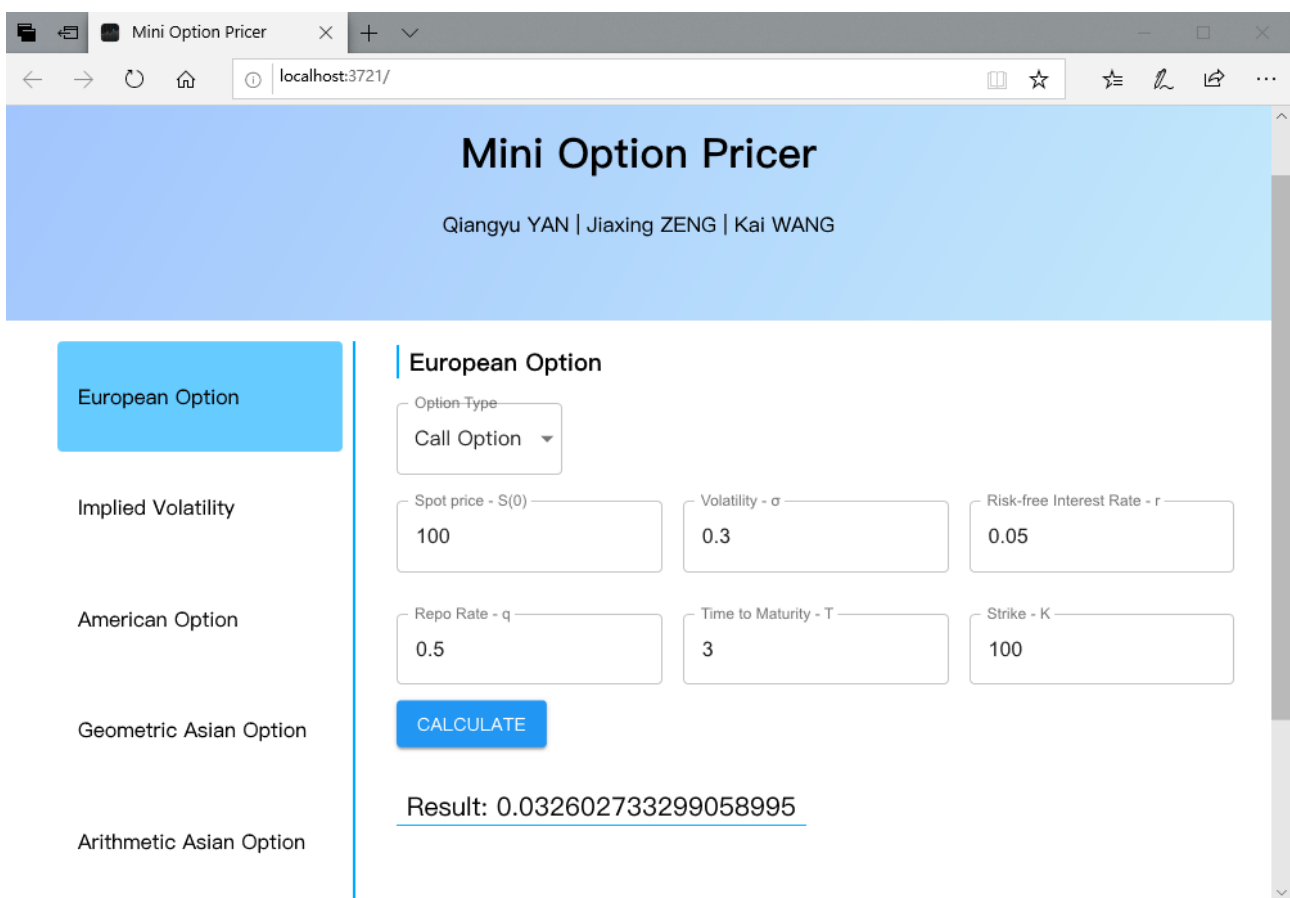


COMP7405 - ASSIGNMENT 3

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1 Interface Introduction



The screenshot shows a web browser window titled "Mini Option Pricer" at the URL "localhost:3721/". The page has a light blue header with the title "Mini Option Pricer" and the authors "Qiangyu YAN | Jiaxing ZENG | Kai WANG". On the left, there is a vertical menu with four options: "European Option" (highlighted in blue), "Implied Volatility", "American Option", and "Arithmetic Asian Option". The main content area is titled "European Option" and contains several input fields: "Option Type" (set to "Call Option"), "Spot price - $S(0)$ " (100), "Volatility - σ " (0.3), "Risk-free Interest Rate - r " (0.05), "Repo Rate - q " (0.5), "Time to Maturity - T " (3), and "Strike - K " (100). A blue "CALCULATE" button is positioned below the input fields. The result, "Result: 0.032602733299058995", is displayed at the bottom of the main content area.

Figure 1: UI SnapShot

The User Interface is developed using *Flask* (A python web framework) and *HTML* & *CSS* & *JavaScript*. It's a webpage.

Look at the snapshot above. There is a menu on the left panel which can be click and navigate to different option pricer calculator. On the right panel, it provides several input fields, such as Option Type, Spot Price and so on.

After filling in these input fields, we can click on the button "CALCULATE" and the result will be displayed below.

2 Functionalities Explanation

```
. # For more details, please refer to source code.
|-- option_pricer
|   |-- binomial_tree.py # American options
|   |-- black_scholes.py # European options
|   |-- closed_form_formulas.py # Geometric Asian/Basket options
|   |-- implied_volatility.py # Implied volatility calculator
|   |-- MC.py # Monte Carlo Method (Arithmetic Asian/Basket option)
|   |-- server.py # HTTP Server
|   |-- static # Web User Interface compiled file directory
|-- README.md
|-- requirement.txt # Python Dependencies
|-- web # Web User Interface source code
```

3 Test cases and analysis

Form previous knowledges, we know that the correlation of the variates and values may not be monotance, so all the analysis only based on the testing result, which means it may variates under different conditions.

Table 1: European Option

No.	$S(0)$	K	T	q	σ	r	Call	Put
0	100	100	3	0.2	0.3	0.05	3.7385	34.9281
1+	120	100	3	0.2	0.3	0.05	7.4270	27.6404
1-	80	100	3	0.2	0.3	0.05	1.4346	43.6004
2+	100	120	3	0.2	0.3	0.05	2.0720	50.4758
2-	100	80	3	0.2	0.3	0.05	6.8517	20.8272
3+	100	100	4	0.2	0.3	0.05	2.9468	39.8870
3-	100	100	2	0.2	0.3	0.05	4.6054	28.0571
4+	100	100	3	0.3	0.3	0.05	0.9993	46.4131
4-	100	100	3	0.1	0.3	0.05	11.0827	23.0717
5+	100	100	3	0.2	0.4	0.05	7.2639	38.3535
5-	100	100	3	0.2	0.2	0.05	1.0750	32.2646
6+	100	100	3	0.2	0.3	0.10	5.6942	24.8948
6-	100	100	3	0.2	0.3	0.03	3.1088	39.6207

From Table 1, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/\sigma/r$ increase(decrease), or $K/T/q$ decrease/increase; (2) Put Option value will increase(decrease) when $K/T/q/\sigma$ increase(decrease), or $S(0)/r$ decrease(increase).

Table 2: Implied Volatility

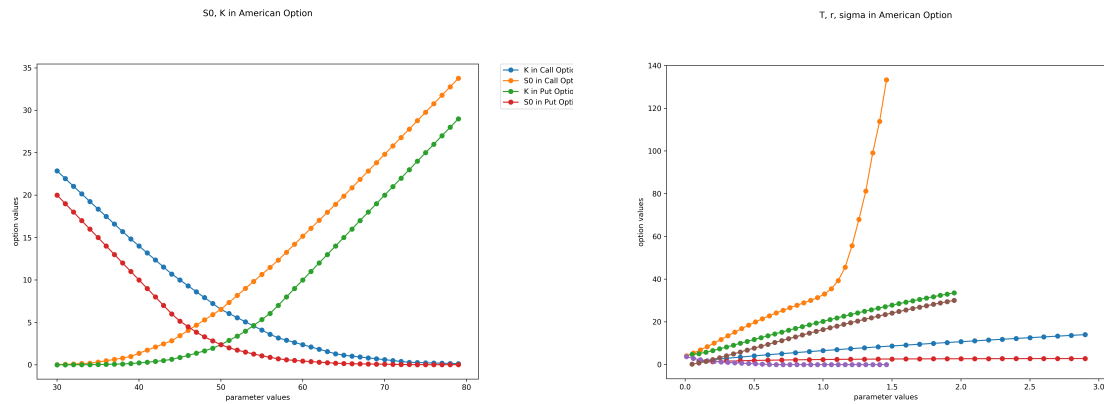
No.	Price	$S(0)$	K	T	q	r	σ_C	σ_P
0	25	100	100	1	0.2	0.05	0.9158	0.5044
1+	27	100	100	1	0.2	0.05	0.9801	0.5656
1-	23	100	100	1	0.2	0.05	0.8522	0.4429
2+	25	120	100	1	0.2	0.05	0.6164	0.7021
2-	25	90	100	1	0.2	0.05	1.0863	0.3346
3+	25	100	110	1	0.2	0.05	0.9904	0.2608
3-	25	100	90	1	0.2	0.05	0.8260	0.7054
4+	25	100	80	2	0.2	0.05	0.8541	0.1970
4-	25	100	80	0.5	0.2	0.05	1.0978	0.8143
5+	25	100	100	1	0.3	0.05	1.0775	0.3460
5-	25	100	100	1	0.1	0.05	0.7538	0.6205
6+	25	100	100	1	0.2	0.07	0.8994	0.5448
6-	25	100	100	1	0.2	0.03	0.9319	0.4620

(need to revise) From Table 2, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/\sigma/r$ increase(decrease), or $K/T/q$ decrease/increase; (2) Put Option value will increase(decrease) when $K/T/q/\sigma$ increase(decrease), or $S(0)/r$ decrease(increase).

Table 3: American Option

No.	$S(0)$	K	T	σ	r	N	Call	Put
0	100	100	3	0.3	0.05	5	27.6113	15.2564
1+	120	100	3	0.3	0.05	5	41.9701	9.1557
1-	80	100	3	0.3	0.05	5	13.2526	23.8372
2+	100	120	3	0.3	0.05	5	18.7749	26.2878
2-	100	80	3	0.3	0.05	5	36.4478	6.1963
3+	100	100	4	0.3	0.05	5	32.4964	16.4948
3-	100	100	2	0.3	0.05	5	21.9150	13.3923
4+	100	100	3	0.4	0.05	5	33.8292	21.6133
4-	100	100	3	0.2	0.05	5	21.3850	8.7914
5+	100	100	3	0.3	0.10	5	34.0587	10.9048
5-	100	100	3	0.3	0.03	5	25.1147	17.3811
6+	100	100	3	0.3	0.05	7	27.3803	11.0762
6-	100	100	3	0.3	0.05	3	28.1473	15.2788

From Table 3, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/T/\sigma/r/N$ increase(decrease), or K decrease/increase; (2) Put Option value will increase(decrease) when $K/T/\sigma$ increase(decrease), or $S(0)/r/N$ decrease(increase).



For more information, we create the chart to represent the relationship. Based on $K = 50, r = 0.1, \sigma = 0.2, S(0) = 50$, and the step of binomial tree is 10, we test K from 30 to 80, $S(0)$ from 30 to 80, T from 0.1 to 3, r from 0.01 to 1.5, σ from 0.05 to 2.

Table 4: Geometric Asian Option

Test No.	$S(0)$	K	T	σ	r	n	Call	Put
0	100	100	3	0.3	0.05	50		
1+	120	100	3	0.3	0.05	50		
1-	80	100	3	0.3	0.05	50		
2+	100	120	3	0.3	0.05	50		
2-	100	80	3	0.3	0.05	50		
3+	100	100	4	0.3	0.05	50		
3-	100	100	2	0.3	0.05	50		
4+	100	100	3	0.4	0.05	50		
4-	100	100	3	0.2	0.05	50		
5+	100	100	3	0.3	0.10	50		
5-	100	100	3	0.3	0.03	50		
6+	100	100	3	0.3	0.05	100		
6-	100	100	3	0.3	0.05	30		

(need to revise) From Table 4, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/T/\sigma/r$ increase(decrease), or K decrease/increase; (2) Put Option value will increase(decrease) when $K/T/\sigma$ increase(decrease), or $S(0)/r$ decrease(increase); (3) n usually won't affect the option value a lot.

Table 5: Arithmetic Option

No.	$S(0)$	K	T	σ	r	n	$m(k)$	$Call_0$	Put_0	$Call_1$	Put_1
0	100	100	3	0.3	0.05	50	100	[14.5328, 14.8193]	[7.7782, 7.9165]	[14.7196, 14.7412]	[7.8024, 7.8112]
0*	100	100	3	0.3	0.05	50	100	[14.6382, 14.9257]	[7.6845, 7.8224]	[14.7232, 14.7450]	[7.7949, 7.8038]
1+	120	100	3	0.3	0.05	50	100	[28.4026, 28.8034]	[3.1498, 3.2390]	[28.6764, 28.7044]	[3.1634, 3.1719]
1-	80	100	3	0.3	0.05	50	100	[5.0763, 5.2405]	[16.8179, 17.0013]	[5.1948, 5.2107]	[16.8699, 16.8796]
2+	100	120	3	0.3	0.05	50	100	[7.5411, 7.7620]	[17.9305, 18.1435]	[7.6950, 7.7152]	[17.9870, 17.9983]
2-	100	80	3	0.3	0.05	50	100	[25.8763, 26.2178]	[1.9273, 2.0356]	[26.1147, 26.1284]	[1.9846, 1.9913]
3+	100	100	4	0.3	0.05	50	100	[16.9239, 17.2637]	[8.1950, 8.3406]	[17.1441, 17.1746]	[8.2193, 8.2300]
3-	100	100	2	0.3	0.05	50	100	[11.6636, 11.8892]	[7.0222, 7.1473]	[11.8116, 11.8251]	[7.0453, 7.0518]
4+	100	100	3	0.4	0.05	50	100	[17.9294, 18.3309]	[11.2506, 11.4307]	[18.1931, 18.2340]	[11.2855, 11.3010]
4-	100	100	3	0.2	0.05	50	100	[11.1576, 11.3450]	[4.3411, 4.4312]	[11.2811, 11.2906]	[4.3569, 4.3607]
5+	100	100	3	0.3	0.10	50	100	[17.2140, 17.5077]	[4.8335, 4.9367]	[17.4057, 17.4299]	[4.8492, 4.8557]
5-	100	100	3	0.3	0.03	50	100	[13.4598, 13.7419]	[9.3022, 9.4564]	[13.6463, 13.6669]	[9.3326, 9.3425]
6+	100	100	3	0.3	0.05	100	100	[14.5575, 14.8447]	[7.6720, 7.8094]	[14.5923, 15.6135]	[7.7473, 7.7561]
6-	100	100	3	0.3	0.05	30	100	[14.5566, 14.8441]	[7.8557, 7.9952]	[14.8895, 14.9119]	[7.8707, 7.8797]

Default random seed is 10. Case 0* is using 5 as random seed.

$Call_0$ and Put_0 are the result without control, $Call_1$ and Put_1 are the result with control variate.

From Table 5, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/T/\sigma/r$ increase(decrease), or K decrease/increase; (2) Put Option value will increase(decrease) when $K/T/\sigma$ increase(decrease), or $S(0)/r$ decrease(increase); (3) n usually won't affect the option value a lot.

Table 6: Geometric Asian Basket

No.	$S_1(0)$	$S_2(0)$	K	T	σ_1	σ_2	r	ρ	Call	Put
0	100	100	100	3	0.3	0.3	0.05	0.5	22.1021	11.4916
1+	120	120	100	3	0.3	0.3	0.05	0.5	36.6832	6.7364
1-	80	80	100	3	0.3	0.3	0.05	0.5	10.5840	19.3097
2+	100	100	120	3	0.3	0.3	0.05	0.5	14.6855	21.2891
2-	100	100	80	3	0.3	0.3	0.05	0.5	32.5363	4.7116
3+	100	100	100	4	0.3	0.3	0.05	0.5	25.8367	12.1100
3-	100	100	100	2	0.3	0.3	0.05	0.5	17.6665	10.3751
4+	100	100	100	3	0.5	0.5	0.05	0.5	28.4494	23.4691
4-	100	100	100	3	0.1	0.1	0.05	0.5	14.7662	1.2113
4-	100	100	100	3	0.1	0.3	0.05	0.5	17.9247	6.5864
5+	100	100	100	3	0.3	0.3	0.10	0.5	29.0230	6.4235
5-	100	100	100	3	0.3	0.3	0.03	0.5	19.5131	14.2249
6+	100	100	100	3	0.3	0.3	0.05	0.9	25.8788	12.6224
6-	100	100	100	3	0.3	0.3	0.05	0.3	20.1535	10.8394

() From Table 6, we can get: Based on Case 0, (1) Call Option value will increase(decrease) when $S(0)/T/\sigma/r$ increase(decrease), or K decrease/increase; (2) Put Option value will increase(decrease) when $K/T/\sigma$ increase(decrease), or $S(0)/r$ decrease(increase); (3) n usually won't affect the option value a lot.

Table 7: Arithmetic Asian Basket

No.	$S_1(0)$	$S_2(0)$	K	T	σ_1	σ_2	r	ρ	$m(k)$	$Call_0$	Put_0	$Call_1$	Put_1
0	100	100	100	3	0.3	0.3	0.05	0.5	100	[24.1454, 24.6262]	[10.5387, 10.7284]	[24.4580, 24.5200]	[10.5670, 10.5913]
0*	100	100	100	3	0.3	0.3	0.05	0.5	100	[24.4490, 24.9341]	[10.4730, 10.6621]	[24.4576, 24.5201]	[10.5659, 10.5902]
1+	120	120	100	3	0.3	0.3	0.05	0.5	100	[39.5611, 40.1950]	[6.0868, 6.2355]	[39.9785, 40.0551]	[6.1012, 6.1212]
1-	80	80	100	3	0.3	0.3	0.05	0.5	100	[11.7723, 12.0930]	[18.0303, 18.2597]	[11.9840, 12.0300]	[18.0785, 18.1061]
2+	100	100	120	3	0.3	0.3	0.05	0.5	100	[16.2783, 16.6952]	[19.8146, 20.0828]	[16.5535, 16.6121]	[19.8698, 19.9024]
2-	100	100	80	3	0.3	0.3	0.05	0.5	100	[34.9971, 35.5335]	[4.2431, 4.3546]	[35.3517, 35.4157]	[4.2524, 4.2676]
3+	100	100	100	4	0.3	0.3	0.05	0.5	100	[28.7083, 29.2935]	[10.9846, 11.1824]	[29.0876, 29.1743]	[11.0139, 11.0426]
3-	100	100	100	2	0.3	0.3	0.05	0.5	100	[18.9245, 19.2925]	[9.6463, 9.8201]	[19.1646, 19.2037]	[9.6725, 9.6910]
4+	100	100	100	3	0.5	0.5	0.05	0.5	100	[34.2764, 35.2139]	[21.0047, 21.2980]	[34.8770, 35.0872]	[21.0632, 21.1196]
4-	100	100	100	3	0.1	0.1	0.05	0.5	100	[14.9704, 15.1371]	[1.1592, 1.2010]	[15.0839, 15.0903]	[1.1596, 1.1619]
4-	100	100	100	3	0.1	0.3	0.05	0.5	100	[19.1806, 19.5245]	[5.4966, 5.6117]	[19.4154, 19.4533]	[5.5160, 5.5331]
5+	100	100	100	3	0.3	0.3	0.10	0.5	100	[31.3679, 31.8890]	[5.8200, 5.9544]	[31.7094, 31.7730]	[5.8338, 5.8517]
5-	100	100	100	3	0.3	0.3	0.03	0.5	100	[21.4166, 21.8780]	[13.1101, 13.3245]	[21.7161, 21.7771]	[13.1454, 13.1724]
6+	100	100	100	3	0.3	0.3	0.05	0.9	100	[25.9909, 26.5407]	[12.3960, 12.6073]	[26.3479, 26.3605]	[12.4286, 12.4340]
6-	100	100	100	3	0.3	0.3	0.05	0.3	100	[23.1861, 23.6333]	[9.5634, 9.7409]	[23.4685, 23.5544]	[9.5887, 9.6203]

Default random seed is 10. 0* is using 5 as random seed. $Call_0$ and Put_0 are the result without control, $Call_1$ and Put_1 are the result with control variate.

From Table 7, we can see: Based on Case 0, (1)Call Option value increases(decreases) if $S_1(0) \& S_2(0)/T / \sigma_1 \& \sigma_2 / r / \rho$ increase(decrease), or K decrease(increase); (2)Put Option value increases(decreases) when $K/T / \sigma_1 \& \sigma_2 / \rho$ increases(decreases), or $S_1(0) \& S_2(0)/r$ decreases(increases).

4 Contributions

Task	YAN Qiangyu	ZENG Jiaxing	WANG Kai
European Option		✓	
Implied Volatility		✓	
American Option			✓
Geometric Asian Option			✓
Arithmetic Asian Option	✓		
Geometric basket Option			✓
Arithmetic basket Option	✓		
UI Design		✓	
Test	✓		
Report	✓	✓	