



McGill Computational Science and Engineering Seminar



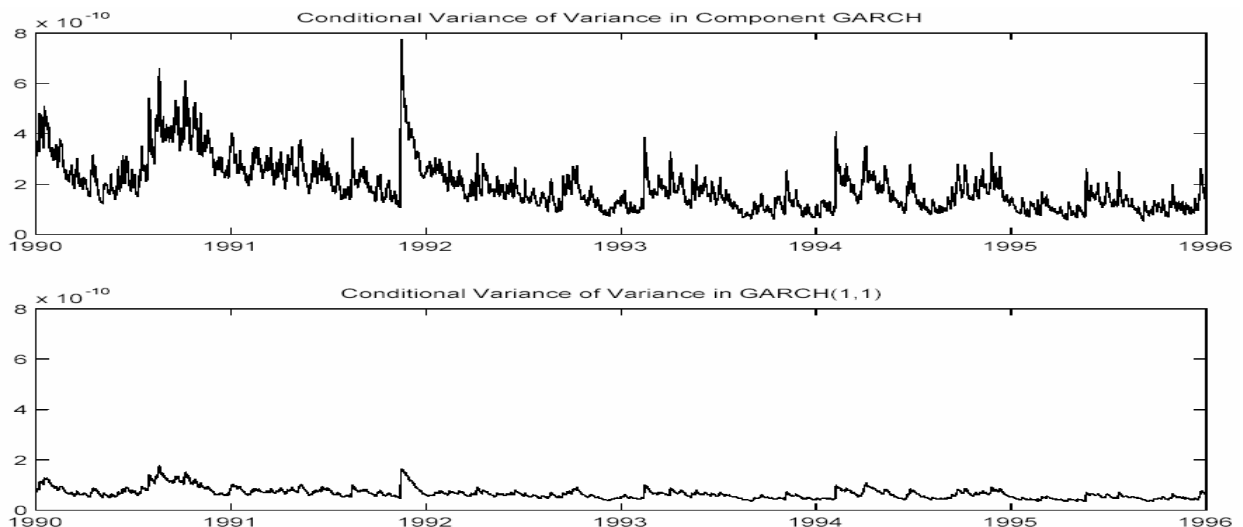
Friday, October 8, 2004 at 10:45 a.m.
McConnell Engineering Bldg. Room 603

Option Valuation with Volatility Components

Peter Chirstoffersen

Department of Finance, McGill University

This talk presents a new model for the valuation of European options. In this model, the volatility of returns consists of two components. One of these components is a long-run component, and it can be modeled as fully persistent. The other component is short-run and has a zero mean. We investigate the model empirically using parameter estimates obtained from returns data and options data. The performance of the model is spectacular when compared to a standard single-component model. The improvement in the model's performance is due to its richer dynamics which enables it to jointly model long-maturity and short-maturity options.



Coffee and snacks will be served at 10:30 a.m. in Room 603 before the seminar.