Pricing non-traded assets using indifference

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Pricing contingent claims in incomplete markets can be a challenge, since not all claims are perfectly replicable. We used the indifference pricing method to compute the price of a claim in a time-discrete environment, where the non-traded asset is observable, and the traded one follows, necessarily, an atomic model. We implemented a multiperiod, time consistent, pricing algorithm using lattices for both assets (traded & non-traded) to obtain a non-arbitrage price for the claim.

References

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