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Sinopsis

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This is the first book about the emerging field of utility indifference pricing for valuing derivatives in incomplete markets. René Carmona brings together a who's who of leading experts in the field to provide the definitive introduction for students, scholars, and researchers. Until recently, financial mathematicians and engineers developed pricing and hedging procedures that assumed complete markets. But markets are generally incomplete, and it may be impossible to hedge against all sources of randomness. Indifference Pricing offers cutting-edge procedures developed under more realistic market assumptions.

The book begins by introducing the concept of indifference pricing in the simplest possible models of discrete time and finite state spaces where duality theory can be exploited readily. It moves into a more technical discussion of utility indifference pricing for diffusion models, and then addresses problems of optimal design of derivatives by extending the indifference pricing paradigm beyond the realm of utility functions into the realm of dynamic risk measures. Focus then turns to the applications, including portfolio optimization, the pricing of defaultable securities, and weather and commodity derivatives. The book features original mathematical results and an extensive bibliography and indexes.

In addition to the editor, the contributors are Pauline Barrieu, Tomasz R. Bielecki, Nicole El Karoui, Robert J. Elliott, Said Hamadène, Vicky Henderson, David Hobson, Aytac Ilhan, Monique Jeanblanc, Mattias Jonsson, Anis Matoussi, Marek Musiela, Ronnie Sircar, John van der Hoek, and Thaleia Zariphopoulou.

The first book on utility indifference pricing

Explains the fundamentals of indifference pricing, from simple models to the most technical ones

Goes beyond utility functions to analyze optimal risk transfer and the theory of dynamic risk measures

Covers non-Markovian and partially observed models and applications to portfolio optimization, defaultable securities, static and quadratic hedging, weather derivatives, and commodities

Includes extensive bibliography and indexes

Provides essential reading for PhD students, researchers, and professionals

René Carmona is the Paul M. Wythes '55 Professor of Engineering and Finance in the Department of Operations Research and Financial Engineering at Princeton University. His books include Interest Rate Models and Statistical Analysis of Financial Data in S-Plus.