Parameter Dependence of Tree Methods

Example 1.6, choice of parameters u, d, p

Several variants of the tree method lead to the same limit.
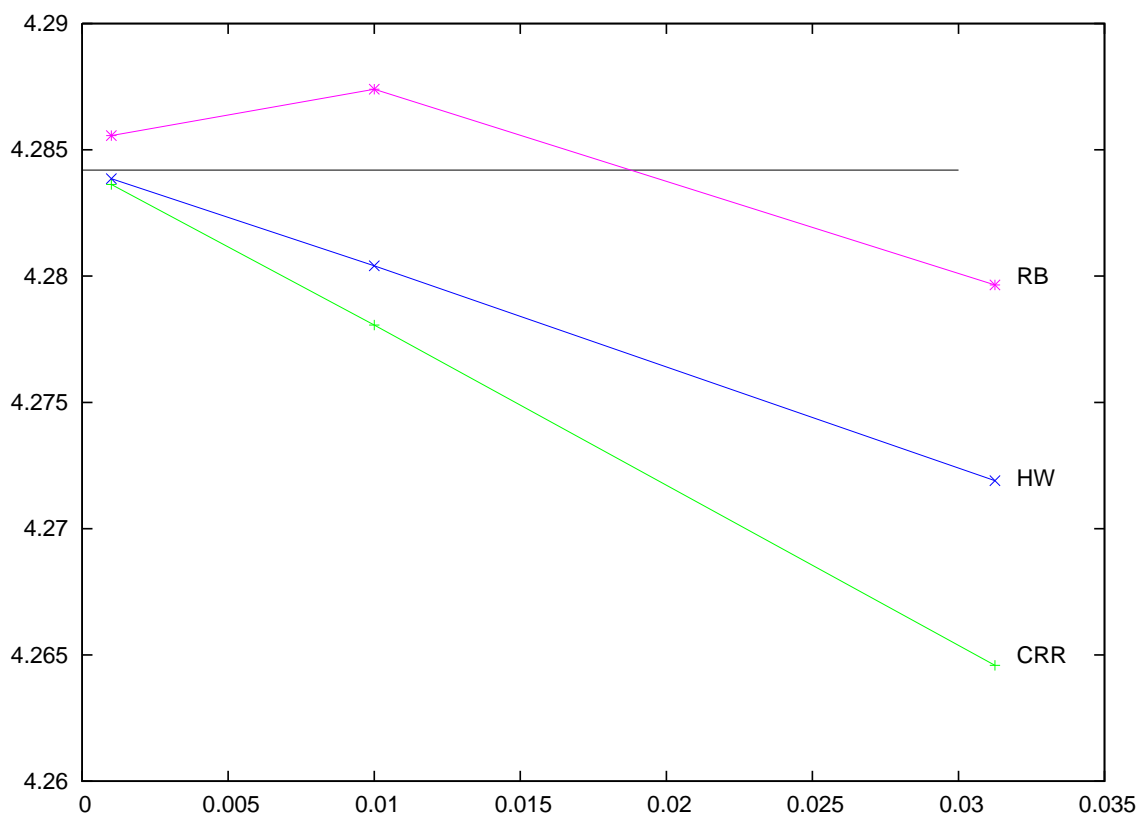

Figure:

horizontal axis: $\Delta t = 1/M$, vertical axis: V

$M = 32,\ 100,\ 1000$

black line: the limiting value

HW: the exact values of u, d, p, eq.(1.11) on p.19

CRR: Cox, Ross, Rubinstein as used in [Hull00]

RB: Randleman, Bartter (Exercise 1.21 on p.73)