

# Contents

1	Introduction.....	1
2	Valuation Methods.....	4
2.1	Lattice Approach.....	6
2.1.1	The Binomial Option Pricing Model.....	7
2.1.2	The Trinomial Option Pricing Model.....	8
2.1.3	The Log-Transformed Binomial Option Pricing Model.....	10
2.1.4	The Modified Binomial Option Pricing Model.....	11
2.1.5	The Modified Trinomial Option Pricing Model.....	11
2.1.6	The Extensible Flexible Binomial Option Pricing Model.....	12
2.1.7	The Binomial Black and Scholes Option Pricing Method.....	13
2.1.8	The Accelerated Binomial Option Pricing Method.....	14
2.2	Finite Difference Method.....	14
2.2.1	The Explicit Finite Difference Method.....	15
2.2.2	The Implicit Finite Difference Method.....	15
2.3	The Simulation Approach.....	16
2.3.1	Least-Squares Simulation.....	16
2.4	Analytic Approximation Methods.....	18
2.4.1	Barone-Adesi and Whaley(1987) method.....	19
2.4.2	Geske and Johnson (1984) method.....	20
2.4.3	Ibanez (2003) method.....	20
3	Numerical results and Comparisons.....	22
3.1	Selected option contracts.....	22
3.2	Numerical Results.....	29
3.3	Comparison in accuracy.....	34
3.4	Comparison in speed.....	41
3.5	Comparison in speed and accuracy trade off.....	42
4	Conclusions and future research.....	51
5	Appendix.....	53
	Reference.....	57