

Help

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#include <stdlib.h>
#include "hk1d_std.h"
#include "mathsb.h"
#include "currentzcb.h"
#include "hktree.h"

/*Swaption=Option on Coupon-Bearing Bond*/
/*All details comments for the functions used here are mainly in "hwtree1dinclud

static void HK_iterations(int flat_flag, double r_flat, char *init, double a, do
                        double T0, double per, int m, double K0, int xnumber,

////////////////////////////////////
// computes V_0(K), the current Hull-White-price of the digital (T,S)-caplet wit
////////////////////////////////////
/*static double HW_DigitalCaplet(double a0, double sigma0, double T, double S, d
{
    double sigma_P, log_term;

    sigma_P = sigma0 * (exp(-a0*T) - exp(-a0*S))/a0 * sqrt( (exp(2*a0*T)-1)/(2*a0)

    log_term = log( POT / POS / (tau0*K+1) );

    return tau0 * POS * cdf_nor( log_term/sigma_P - sigma_P/2 );
}*/

#if defined(PremiaCurrentVersion) && PremiaCurrentVersion < (2007+2) //The "#els
static int CHK_OPT(TR_SWAPTION)(void *Opt, void *Mod)
{
    return NONACTIVE;
}
int CALC(TR_SWAPTION)(void *Opt, void *Mod, PricingMethod *Met)
{
    return AVAILABLE_IN_FULL_PREMIA;
}

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}
#else

/////////////////////////////////////////////////////////////////
// solves  $V_0(K)=x$ , where  $V_0(K)$  is the current Hull-White-price of the digital
/////////////////////////////////////////////////////////////////
static double Inv_HW_DigitalCaplet(double a0, double sigma0, double T, double S,
{
    double tau0_inv, sigma_P, exp_term, K;

    tau0_inv = 1 / tau0;

    sigma_P = sigma0 * (exp(-a0 * T) - exp(-a0 * S)) / a0 * sqrt((exp(2 * a0 * T)

    exp_term = exp(-SQR(sigma_P) / 2 - sigma_P * pnl_inv_cdfnor(x / (tau0 * POS)))

    K = tau0_inv * POT / POS * exp_term - tau0_inv;
    /*if (K<0) printf("Inv_HW_DigitalCaplet returns the negative strike K = %f\ n"

    return K;
}

/////////////////////////////////////////////////////////////////
// solves  $V_0^{\{m-1, HK\}}(K) = V_0^{\{m-1, HW\}}(K)$  in terms of sigma_HK, where  $V_0^{\{m-1,$ 
// is the current Hunt-Kennedy-price resp. Hull-White price of the digital ( $T_{\{m$ 
/////////////////////////////////////////////////////////////////
static double ComputeSigma_HK(double a, double sigma_HW, double Tm_1, double Tm,
{
    double sigma_HK, R0m_1, p, q, sigma_P;

    R0m_1 = (POTm_1 / POTm - 1.) / tau;
    sigma_P = sigma_HW * (exp(-a * Tm_1) - exp(-a * Tm)) / a * sqrt((exp(2.*a * Tm
    p = 2. * log((R0m_1 + tau) / (K + tau)) / sigma_P - sigma_P;
    q = -2. * log(R0m_1 / K);
    sigma_HK = (sqrt(SQR(p) / 4. - q) - p / 2.) / sqrt((exp(2.*a * Tm_1) - 1) / (2

    return sigma_HK;
}

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////////////////////////////////////
// functional form of the INVERSE of the numeraire at T[m-1], i.e. of 1/P(T_{m-1})
////////////////////////////////////
static double N_mminus1(double x, double C_2)
{
    return 1 + C_2 * exp(x);
}

////////////////////////////////////
// functional form of the INVERSE of the numeraire at T[m-2], i.e. of 1/P(T_{m-2})
////////////////////////////////////
/*static double N_mminus2(double a_HW, double sigma_HW, double T_mminus2, double
    double POT_mminus1, double POT_m, double C_0, double C_1, double Sig, double x
    {
        double result, J_term, P_term, V0_market_inv;

        P_term = 1 + C_0 * exp(x);
        J_term = POT_m * tau_mminus2 * ( cdf_nor(-x/Sig) + C_1*cdf_nor(-x/Sig+Sig) );
        V0_market_inv = Inv_HW_DigitalCaplet( a_HW, sigma_HW, T_mminus2, T_mminus1, t

        result = P_term * ( 1 + tau_mminus2 * V0_market_inv);

        return result;
    }
    */

////////////////////////////////////
// returns the variance of the HK-process x_t given x_s
////////////////////////////////////
static double SigmaSqr(double t, double s, double sigma, double a)
{
    return SQR(sigma) * (exp(2.*a * t) - exp(2.*a * s)) / (2 * a);
}

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////////////////////////////////////
// returns (U_{t,s}f)(x), where U is the semigroup of operators
// corresponding to the HK-process
////////////////////////////////////
static double U(double t, double s, discrete_fct *f, double x, double sigma, double a)
{
    return NormalTab(x, SigmaSqr(t, s, sigma, a), f);
}

static void SetUf(discrete_fct *g, double t, double s, discrete_fct *f, double a)
// Sets g = U_{t,s}f in a reasonable way
{
    SetNf(g, SigmaSqr(t, s, sigma, a), f);
}

static double UfUpBound(discrete_fct *f, double t, double s, double vmax, double a)
// returns the minimum of all x>=f.xleft such that U_{t,s}(f*1_{(x,infty)})(0) < a
{
    return NfUpBound(f, SigmaSqr(t, s, sigma, a), vmax);
}

static double UfLoBound(discrete_fct *f, double t, double s, double vmin, double a)
// returns the maximum of all x<f.right such that U_{t,s}(f*1_{(x,infty)})(0) > a
{
    return NfLoBound(f, SigmaSqr(t, s, sigma, a), vmin);
}

static void HK_iterations(int flat_flag, double r_flat, char *curve, double a, double T0, double per, int m, double K0, int xnumber,
// flat_flag          : flag to decide whether initial yield curve is flat at r_flat
// a, sigma_HW        : parameters of the HW-model representing the market ("a" and "sigma")
// T0                  : first HK-date
// per                 : HK-periodicity
// m                   : number of HK-dates
// K0                  : calibration strike (for the computation of sigma_HK)

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// N          : functional forms of the INVERSE of the numeraire at T[i]
// xnumber    : parameter for the discretization of the functional form
{

    double *T;          /* HK-dates */
    double *tau;         /* tau[i] = year fraction from T[i] to T[i+1] */
    double *P0;         /* P0[i] = P(0,T[i]) (initial zcb prices) */
    double **Sigma;      /* corresponds to Sigma_{T[i],T[j-1]}, where T[
/* here SQR(Sigma_{t,s}) is the variance of x_t given x_s */
    double C_2;         /* corresponds to the constant C_2 in the formu

    double x, s, result, J_term, P_term, V0_market_inv;
    double xle, xste, xri, eps;
    double sigma_HK;     /* parameter of the HK-proces */
    double xleft, xstep; /* parameters for the discretization of the functiona
    int i, j, k;
    discrete_fct Ptilde_i, Ptilde_ix;

    //////////////////////////////////////
    // initialisation of the main variables //

    T = malloc((m + 1) * sizeof(double));
    for (i = 0; i <= m; i++) T[i] = i * per + T0;
    // T[0]=T0          : first resetting date of the swap
    // T[1],...,T[m]     : payment dates of the swap
    // T[0],...,T[n-1]   : exercise dates of the swaption    ---> We suppose m>=n

    tau = malloc(m * sizeof(double));
    for (i = 0; i < m; i++) tau[i] = per;

    P0 = malloc((m + 1) * sizeof(double));
    for (i = 0; i <= m; i++) P0[i] = CurrentZCB(T[i], flat_flag, r_flat, curve);

    // computation of sigma_HK

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sigma_HK = ComputeSigma_HK(a, sigma_HW, T[m - 1], T[m], tau[m - 1], PO[m - 1],
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Sigma = malloc(m * sizeof(double *));
for (i = 0; i < m; i++)
{
    Sigma[i] = malloc((i + 1) * sizeof(double));
    for (j = 0; j <= i; j++)
    {
        if (j == 0) s = 0;
        else s = T[j - 1];
        Sigma[i][j] = sigma_HK * sqrt((exp(2 * a * T[i]) - exp(2 * a * s)) / (
    }
}

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// constant in the formula for N[m-1]
C_2 = (PO[m - 1] / PO[m] - 1) * exp(-SQR(Sigma[m - 1][0]) / 2);

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////////////////////////////////////
// initialization of N[m-1] (for which we have an explicit formula !) //
////////////////////////////////////
xleft = -SQR(Sigma[m - 1][0]) - Sigma[m - 1][0] * sqrt(40.);
xstep = 2 * fabs(xleft) / (double)xnumber;
Set_discrete_fct(&N[m - 1], xleft, xstep, xnumber);
for (j = 0; j < N[m - 1].xnumber; j++)
{
    x = N[m - 1].xleft + j * N[m - 1].xstep;
    N[m - 1].val[j] = N_mminus1(x, C_2);
}
/*
printf("N[%d]\n", m-1); ShowDiscreteFct( &N[m-1] );
sprintf(filename, "N[%d].txt", m-1);
SaveDiscreteFctToFile( &N[m-1], filename);
printf("\n initial discounted ZCB price for maturity T[%d]=%f :\n", m-1, T
printf("HK: %f\n", U(T[m-1], 0., &N[m-1], 0., sigma_HK, a) );
printf("HW: %f\n\n", PO[m-1]/PO[m]);
*/

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////////////////////////////////////
// iterative computation of the N[m-2],...,N[0] //
////////////////////////////////////
for (i = m - 2; i >= 0; i--)
{
    // printf("beginning for i=%d\ n", i); // scanf("%d", &j);

    ///////////////////////////////////
    // setting of  $\tilde{P}_i := U_{\{T[i+1], T[i]\}} N[i+1]$  //
    ///////////////////////////////////
    SetUf(&Ptilde_i, T[i + 1], T[i], &N[i + 1], sigma_HK, a);
    // sets Ptilde_i such that domain( Ptilde_i ) = [ U_{T[i+1], T[i]} N[i+1] >

    /*
        printf("Ptilde_i\ n"); ShowDiscreteFct( &Ptilde_i );
        sprintf(filename, "Ptilde[%d].txt", i);
        SaveDiscreteFctToFile( &Ptilde_i, filename);
        printf("\ ninitial discounted ZCB price for maturity T[%d]=%f :\ n", i+
        printf("HK: %f\ n", U(T[i], 0., &Ptilde_i, 0., sigma_HK, a) );
        printf("HW: %f\ n\ n", P0[i+1]/P0[m]);
        */

    ///////////////////////////////////
    // setting of N[i] //
    ///////////////////////////////////
    eps = 0.000001;
    xle = UfUpBound(&Ptilde_i, T[i], 0., P0[i + 1] / P0[m] - eps, sigma_HK, a)
    xri = UfLoBound(&Ptilde_i, T[i], 0., eps, sigma_HK, a);
    xste = (xri - xle) / (double)(xnumber - 1);
    Set_discrete_fct(&N[i], xle, xste, xnumber);

    // printf("N[%d]\ n",i); ShowDiscreteFct( &N[i] );

    ///////////////////////////////////
    // initialization of  $\tilde{P}_{i,x}$  as a (restricted) copy of  $\tilde{P}_i$  //
    ///////////////////////////////////

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Set_discrete_fct(&Ptilde_ix, N[i].xleft, N[i].xstep, N[i].xnumber + 1);
for (j = 0; j < Ptilde_ix.xnumber; j++)
{
    x = Ptilde_ix.xleft + j * Ptilde_ix.xstep;
    Ptilde_ix.val[j] = U(T[i + 1], T[i], &N[i + 1], x, sigma_HK, a);
}

////////////////////////////////////
// evaluation of N_i in its discretizing points N[i].xleft + j*N[i].xstep
////////////////////////////////////
for (j = 0; j < N[i].xnumber; j++)
{
    x = N[i].xleft + j * N[i].xstep; // observe: x = Ptilde_ix.xleft + j*N[i].xstep
    P_term = Ptilde_ix.val[j]; // hence: P_term = P_i^tilde(x) !!!

    Ptilde_ix.val[j] = 0;
    // VERY IMPORTANT: now Ptilde_ix corresponds really to P^tilde_{i,x} :

    J_term = P0[m] * tau[i] * U(T[i], 0., &Ptilde_ix, 0., sigma_HK, a);

    if (J_term == 0)
    {
        printf("At j=%d: J_term=0 !\ n", j);
        scanf("%d", &k);
        ShowDiscreteFctVal(&Ptilde_ix);
    }
    if (J_term / (tau[i]*P0[i + 1]) >= 1)
    {
        printf("At j=%d: J_term too large !\ n", j);
        scanf("%d", &k);
    }

    VO_market_inv = Inv_HW_DigitalCaplet(a, sigma_HW, T[i], T[i + 1], tau[i], P0[i + 1]);

    result = P_term * (1 + tau[i] * VO_market_inv);
    // now we have: result = N_i(x)

    N[i].val[j] = result;
}

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    }

    /*
    printf("eval. of N[%d] in its discret. points finished\ n", i);
    sprintf(filename, "N[%d].txt", i);
    SaveDiscreteFctToFile( &N[i], filename);
    printf("end for i=%d\ n\ n",i);
    */

    Delete_discrete_fct(&Ptilde_i);
    Delete_discrete_fct(&Ptilde_ix);

} // end of i-loop

////////////////////////////////////
// free the variables          //

free(T);
free(tau);
free(P0);
for (i = 0; i < m; i++) free(Sigma[i]);
free(Sigma);

// end of: free the variables //
////////////////////////////////////
}

static int swaption_hk1d(int flat_flag, double a, double t0, double sigma_HW, do
{
    // flat_flag           : flag to decide wether initial yield curve is flat at
    // a, sigma_HW          : parameters of the HW-model representing the market ("
    // T0                   : first reset date of the swap (= first HK-date)
    // per                  : reset period of the swap (= HK-period)
    // n                    : number of exercise dates of the swaption
    // m                    : number of payment dates of the swap (= number of HK-d
    // t0                   : time for which the swaption price is computed
    // payer                : payer swaption (1) or receiver swaption (0)
    // K                    : strike of the swaption
    // Nominal              : nominal value of the swap

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// N_step          : number of time steps in the tree for the HK-process
// xnumber          : parameter for the discretization of the functional fo

int n;
double *T;          /* reset/payment dates of the swap; exercise da
double *tau;         /* tau[i] = year fraction from T[i] to T[i+1] *
double **Sigma;      /* corresponds to Sigma_{T[i],T[j-1]}, where T[
/* here SQR(Sigma_{t,s}) is the variance of x_t given x_s */
discrete_fct *N;     /* functional forms of the INVERSE of the numer
/* i.e. of 1/P(T_i,T_m), for i=0,...,m-1 */
struct Tree Tr;      /* tree for the HK-process */

double x, s, **disc_payoff, PtildeTiTk, calib_strike, disc_price;
double sigma_HK;      /* parameter of the HK-proces */
int i, j, k, *ind, *Size, payer_sign;
int m, payer;

/* n ==1 for European case*/
n = 1;
m = (int)((T_final - T0) / per);
if ((p->Compute) == &Put)
    payer = 1;
else
    /*if ((p->Compute)==&Call)*/
    payer = 0;
////////////////////////////////////
// initialisation of the main variables //

T = malloc((m + 1) * sizeof(double));
for (i = 0; i <= m; i++) T[i] = i * per + T0;
// T[0]=T0          : first resetting date of the swap
// T[1],...,T[m]    : payment dates of the swap
// T[0],...,T[n-1]  : exercise dates of the swaption    ---> We suppose m>=n

tau = malloc(m * sizeof(double));
for (i = 0; i < m; i++) tau[i] = per;

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// comput. of sigma_HK via calibr. to the digital (T[m-1],T[m])-caplet
// calib_strike = (P0[m-1]/P0[m]-1)/tau[m-1]; // at the money case
calib_strike = K;
sigma_HK = ComputeSigma_HK(a, sigma_HW, T[m - 1], T[m], tau[m - 1],
                           CurrentZCB(T[m - 1], flat_flag, r_flat, curve),
                           CurrentZCB(T[m] , flat_flag, r_flat, curve), calib

Sigma = malloc(m * sizeof(double *));
for (i = 0; i < m; i++)
{
    Sigma[i] = malloc((i + 1) * sizeof(double));
    for (j = 0; j <= i; j++)
    {
        if (j == 0) s = 0;
        else s = T[j - 1];
        Sigma[i][j] = sigma_HK * sqrt((exp(2 * a * T[i]) - exp(2 * a * s)) / (

    }
}

// functional forms of the INVERSE of the numeraire at T[i], i.e. of 1/P(T_i,T
N = malloc(m * sizeof(discrete_fct));

// end of: initialisation of the main variables //
////////////////////////////////////

////////////////////////////////////
// construction of a trinomial tree for the HK-process //

// the last exercise date T[n-1] is the final time of the tree, N_step is the
SetTimegrid(&Tr, T[n - 1], N_step);

// add (if necessary) the exercise dates T[0],...T[n-2] to the time grid of th
for (i = 0; i < n - 1; i++) AddTime(&Tr, T[i]);

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// construct a tree for the HK-process (x_t) given by: dx_t = sigma*exp(a*t) d
SetHKtree(&Tr, a, sigma_HK);

// end of: construction of a trinomial tree for the HK-process //
////////////////////////////////////

ind = malloc(n * sizeof(int));
for (i = 0; i < n; i++)
    ind[i] = indiceTime(&Tr, T[i]);
// we have: Tr.t[ ind[i] ] = T[i]

Size = malloc(n * sizeof(int));
for (i = 0; i < n; i++)
    Size[i] = Tr.TSize[ind[i]];
// at T[i], the tree has Size[i] nodes

disc_payoff = malloc(n * sizeof(double *));
// disc_payoff[i] will represent the discounted payoff of the payer swaption a
for (i = 0; i < n; i++)
{
    disc_payoff[i] = malloc(Size[i] * sizeof(double));

    for (j = 0; j < Size[i]; j++)
        disc_payoff[i][j] = -1 - K * tau[m - 1];
}
// for the moment, disc_payoff[i] represents the constant payoff -1-K*tau[m-1]

// Construct the functional forms N[0],...,N[m-1]
HK_iterations(flat_flag, r_flat, curve, a, sigma_HW,
              T0, per, m, K, xnumber, N);

// Complete the discounted payoff of the payer swaption in disc_payoff
for (i = 0; i < n; i++)

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    for (j = 0; j < Size[i]; j++)
    {
        x = Tr.pLRij[ ind[i] ][j];
        disc_payoff[i][j] += InterpolDiscreteFct(&N[i], x);
        for (k = i + 1; k < m; k++)
        {
            PtildeTiTk = NormalTab(x, SQR(Sigma[k][i + 1]), &N[k]);
            disc_payoff[i][j] -= K * tau[k - 1] * PtildeTiTk;
        }
    }
// now disc_payoff[i] represents  $1/P(T[i], T[m]) - (1 + K \cdot \tau[m-1]) - K \cdot \sum_{k=i+1}^m P^{\text{tilde}}(T[i], T[k])$  which is the correct discounted payoff at  $T[i]$  of the pa

if (payer) payer_sign = 1;
else payer_sign = -1;

initPayoff1(&Tr, T[n - 1]);
for (i = 0; i < n; i++)
{
    for (j = 0; j < Size[i]; j++)
    {
        Tr.Payoffunc[ind[i]][j] = MAX(payer_sign * disc_payoff[i][j], 0);
    }
}

// Compute the swaption from the last exercise date  $T[n-1]$  to 0 in Tr.plQij
Computepayoff1(&Tr, T[n - 1]);

// return plQij[0][1] as discounted price of the swaption
if (t0 == 0)
{
    disc_price = Nominal * Tr.pLQij[0][1];
    // printf("disc. price = %e\ n", disc_price);
    // *price = P0[m] * disc_price;
    *price = CurrentZCB(T[m], flat_flag, r_flat, curve) * disc_price;
    // printf("price = %e\ n", *price);
}

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    }
    else printf("Evaluation in t>0 is not implemented.\ n");

    //////////////////////////////////////
    // free the variables          //

    free(T);
    free(tau);
    // free(P0);
    for (i = 0; i < m; i++) free(Sigma[i]);
    free(Sigma);
    for (i = 0; i < m; i++) Delete_discrete_fct(&N[i]);
    free(N);

    DeletePayoff1(&Tr, T[n - 1]);
    DeleteTree(&Tr);

    for (i = 0; i < n; i++) free(disc_payoff[i]);
    free(disc_payoff);
    free(ind);
    free(Size);

    // end of: free the variables //
    //////////////////////////////////////

    return OK;
}

int CALC(TR_SWAPTION)(void *Opt, void *Mod, PricingMethod *Met)
{
    TYPEOPT *ptOpt = (TYPEOPT *)Opt;
    TYPEMOD *ptMod = (TYPEMOD *)Mod;

    return swaption_hk1d(ptMod->flat_flag.Val.V_INT,
                        ptMod->a.Val.V_DOUBLE,
                        ptMod->T.Val.V_DATE,
                        ptMod->Sigma.Val.V_PDOUBLE,
                        MOD(GetYield)(ptMod),

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        MOD(GetCurve)(ptMod),
        ptOpt->BMaturity.Val.V_DATE,
        ptOpt->OMaturity.Val.V_DATE,
        ptOpt->PayOff.Val.V_NUMFUNC_1,

        ptOpt->EuOrAm.Val.V_BOOL,
        ptOpt->Nominal.Val.V_PDOUBLE,
        ptOpt->FixedRate.Val.V_PDOUBLE,
        ptOpt->ResetPeriod.Val.V_DATE,
        Met->Par[0].Val.V_LONG,
        Met->Par[1].Val.V_INT,
        &(Met->Res[0].Val.V_DOUBLE));
    }

static int CHK_OPT(TR_SWAPTION)(void *Opt, void *Mod)
{
    if ((strcmp(((Option *)Opt)->Name, "PayerSwaption") == 0) || (strcmp(((Option
        return OK;
    else
        return WRONG;
}

#endif //PremiaCurrentVersion
static int MET(Init)(PricingMethod *Met, Option *Opt)
{
    if (Met->init == 0)
    {
        Met->init = 1;

        Met->Par[0].Val.V_LONG = 140;
        Met->Par[1].Val.V_INT = 1000;

    }
    return OK;
}

PricingMethod MET(TR_SWAPTION) =
{
    "TR_HK1d_SWAPTION",

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{ {"TimeStepNumber", LONG, {100}, ALLOW},
  {"Parameter for the discretization of the functional forms", INT, {100}, ALL
  {" ", PREMIA_NULLTYPE, {0}, FORBID}
},
CALC(TR_SWAPTION),
{{"Price", DOUBLE, {100}, FORBID}/*,{"Delta",DOUBLE,{100},FORBID}*/ , {" ", PR
CHK_OPT(TR_SWAPTION),
CHK_ok,
MET(Init)
} ;
```