Source | Model | Option
| Model_Option | Help on tr methods | Archived Tests

tr_cheuckvorst

1 Introduction

A barrier option is activated or extinguished when a specified asset price, index, or rates reaches a specified level. Some models of barrier option assume continuous monitoring of the barrier, others specify fixed times for monitoring of the barrier. Cheuk-Vorst [1] presenten a modification of the trinomial tree (based on a change of the geometry of the tree) which allows to set a layer of the nodes exactly on the barrier for every choiche of the number of time steps. Such method, which solves the near barrrier problem for the option pricing , still presents some problems for the evaluation of the hedging parameters.

References

[1] T.H.F.Cheuk, T.C.F.Vorst. Complex barrier options. *The Journal of Derivatives*, 4:8–22, 1996. 1