

[Help](#)

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#include <stdlib.h>
#include "vasicek1d_std.h"
#include "error_msg.h"

/*Product*/
static double dt, dr, r_min, r_max;
static double *r_vect;
static double *V, *Vp, *Option_values, *Ps, *Obst;
static double *beta, *alpha_r, *beta_r, *gamma_r_, *alpha_l, *beta_l, *gamma_l;

/*Memory Allocation*/
static int memory_allocation(int Nt, int Ns)
{
    int i;

    if ((Obst = malloc(sizeof(double *) * (Nt + 1))) == NULL)
    {
        printf("Allocation error");
        exit(1);
    }
    for (i = 0; i <= Nt; i++)
    {
        Obst[i] = malloc(sizeof(double) * (Ns + 1));
    }

    r_vect = malloc((Ns + 1) * sizeof(double));
    if (r_vect == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    V = malloc((Ns + 1) * sizeof(double));
    if (V == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    Vp = malloc((Ns + 1) * sizeof(double));
    if (Vp == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    Option_values = malloc((Ns + 1) * sizeof(double));
    if (Option_values == NULL)
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    return MEMORY_ALLOCATION_FAILURE;

    Ps = malloc((Ns + 1) * sizeof(double));
    if (Ps == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    beta = malloc((Ns + 1) * sizeof(double));
    if (beta == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    alpha_l = malloc((Ns + 1) * sizeof(double));
    if (alpha_l == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    beta_l = malloc((Ns + 1) * sizeof(double));
    if (beta_l == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    gamma_l = malloc((Ns + 1) * sizeof(double));
    if (gamma_l == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    alpha_r = malloc((Ns + 1) * sizeof(double));
    if (alpha_r == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    beta_r = malloc((Ns + 1) * sizeof(double));
    if (beta_r == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    gamma_r_ = malloc((Ns + 1) * sizeof(double));
    if (gamma_r_ == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    return OK;
}

/*Memory Desallocation*/
static void free_memory(int Nt)
{
    int i;
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    for (i = 0; i < Nt + 1; i++)
        free(Obst[i]);
    free(Obst);

    free(beta);
    free(alpha_r);
    free(beta_r);
    free(gamma_r_);
    free(alpha_l);
    free(beta_l);
    free(gamma_l);

    free(r_vect);

    free(V);
    free(Vp);
    free(Ps);
    free(Option_values);

    return;
}

/*Compute Coupon Bearing*/
static int cb_vasicek(int Nt, int Nt0, int Ns, double K, double periodicity, double
{
    int i, z, TimeIndex;

    /*Maturity conditions for Coupon Bearing*/
    for (i = 0; i < Ns; i++)
        Ps[i] = 1. + K * periodicity;

    /*Finite Difference Cycle*/
    for (TimeIndex = Nt - 1; TimeIndex >= Nt0; TimeIndex--)
    {
        /*Right factor*/
        for (i = 1; i < Ns; i++)
        {
            V[i] = alpha_r[i] * Ps[i - 1] + beta_r[i] * Ps[i] + gamma_r_[i] * Ps[i]

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    }

    /*Backward Steps*/
    Vp[Ns - 1] = V[Ns - 1];
    beta[Ns - 1] = beta_1[Ns - 1];
    for (i = Ns - 2; i >= 1; i--)
    {
        beta[i] = beta_1[i] - gamma_1[i] * alpha_1[i + 1] / beta[i + 1];
        Vp[i] = V[i] - gamma_1[i] * Vp[i + 1] / beta[i + 1];
    }

    /*Forward Steps*/
    Ps[1] = Vp[1] / beta[1];
    for (i = 2; i < Ns; i++)
        Ps[i] = (Vp[i] - alpha_1[i] * Ps[i - 1]) / beta[i];

    /*Coupon adjustment*/
    for (i = 1; i < Ns; i++)
        for (z = 0; z < nb_coupon; z++)
        {
            if ((fabs((double)TimeIndex * dt - (first_payement + (double)z * per
            {
                Ps[i] += K * periodicity;
            }
        }
    }

    return 1.;
}

/*Finite Difference for the options prices*/
static int zbo_implicit(int Nt, int Ns, NumFunc_1 *p)
{
    int i, j, TimeIndex;

    /*Maturity conditions*/
    for (j = 0; j < Ns; j++)
        Option_values[j] = (p->Compute)(p->Par, Ps[j]);

    /*Finite Difference Cycle*/
    for (TimeIndex = Nt - 1; TimeIndex >= 0; TimeIndex--)

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{
    /*Right factor*/
    for (i = 1; i < Ns; i++)
        V[i] = alpha_r[i] * Option_values[i - 1] + beta_r[i] * Option_values[i]

    /*Backward Steps*/
    Vp[Ns - 1] = V[Ns - 1];
    beta[Ns - 1] = beta_l[Ns - 1];
    for (i = Ns - 2; i >= 1; i--)
    {
        beta[i] = beta_l[i] - gamma_l[i] * alpha_l[i + 1] / beta[i + 1];
        Vp[i] = V[i] - gamma_l[i] * Vp[i + 1] / beta[i + 1];
    }
    /*Forward Steps*/
    Option_values[1] = Vp[1] / beta[1];
    for (i = 2; i < Ns; i++)
        Option_values[i] = (Vp[i] - alpha_l[i] * Option_values[i - 1]) / beta[i]
}

return 1.;
}

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/*Swaption=Option on Coupon-Bearing Bond*/
static int swaption_vasicek1d(double r0, double k, double t0, double sigma, double
{
    int i, j, nb_coupon, Nt0, Nt;
    double val, val1, tmp, first_payement, sigma2;

    /*Compute probabilities*/
    Nt = NtY * (long)((T - t0) / periodicity);
    memory_allocation(Nt, Ns);

    /*Space Localisation*/
    dt = (T - t0) / (double)Nt;
    r_min = -2.;
    r_max = 2.;
    dr = (r_max - r_min) / (double)Ns;
    r_vect[0] = r_min;
    for (i = 0; i <= Ns; i++)
        r_vect[i] = r_min + (double)i * dr;
}

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sigma2 = SQR(sigma);

/*Computation of the Matrix*/
for (i = 1; i < Ns; i++)
{
    /*Computation of Rhs coefficients*/
    alpha_r[i] = (1. - cn_theta) * (0.5 * sigma2 * (dt / SQR(dr)) - 0.5 * k *
    beta_r[i] = 1. - (1. - cn_theta) * (sigma2 * (dt / SQR(dr)) + r_vect[i] *
    gamma_r[i] = (1. - cn_theta) * (0.5 * sigma2 * (dt / SQR(dr)) + 0.5 * k *

    /*Computation of Lhs coefficients*/
    alpha_l[i] = cn_theta * (-0.5 * sigma2 * (dt / SQR(dr)) + 0.5 * k * (theta
    beta_l[i] = 1. + cn_theta * (sigma2 * (dt / SQR(dr)) + r_vect[i] * dt);
    gamma_l[i] = cn_theta * (-0.5 * sigma2 * (dt / SQR(dr)) - 0.5 * k * (theta
}

/*Number of Step for the Option*/
Nt0 = NtY * (long)((t - t0) / periodicity);

/*Compute Coupon Bearing*/
first_payment = t + periodicity;
nb_coupon = (int)((T - first_payment) / periodicity);
cb_vasicek(Nt, Nt0, Ns, K, periodicity, first_payment, nb_coupon);

/*Compute Option Prices*/
tmp = p->Par[0].Val.V_DOUBLE;
p->Par[0].Val.V_DOUBLE = 1.;
zbo_implicit(Nt0, Ns, p);

/*Linear Interpolation*/
j = 0;
while (r_vect[j] < r0)
    j++;
val = Option_values[j];
val1 = Option_values[j - 1];

/*Price*/
*price = Nominal * (val + (val - val1) * (r0 - (r_vect[j]))) / ((r_vect[j]) - (

/*Memory Disallocation*/
p->Par[0].Val.V_DOUBLE = tmp;

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    free_memory(Nt);

    return OK;
}

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

    return swaption_vasicek1d(ptMod->r0.Val.V_PDOUBLE, ptMod->k.Val.V_DOUBLE, ptMod->theta.Val.V_PDOUBLE, ptOpt->BMaturity.Val.V_DOUBLE, ptOpt->EuOrAm.Val.V_BOOL, ptOpt->Nominal.Val.V_PDOUBLE);
}

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

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

        Met->Par[0].Val.V_INT2 = 30;
        Met->Par[1].Val.V_INT2 = 300;
        Met->Par[2].Val.V_RGDOUBLE = 0.5;
    }

    return OK;
}

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PricingMethod MET(FD_GaussSWAPTION) =  
{  
    "FD_Gauss_Vasicek1d_Swaption",  
    { {"TimeStepNumber for Period", LONG, {100}, ALLOW}, {"SpaceStepNumber", INT2,  
        {" ", PREMIA_NULLTYPE, {0}, FORBID}  
    },  
    CALC(FD_GaussSWAPTION),  
    { {"Price", DOUBLE, {100}, FORBID}, {" ", PREMIA_NULLTYPE, {0}, FORBID}},  
    CHK_OPT(FD_GaussSWAPTION),  
    CHK_ok,  
    MET(Init)  
} ;
```