

[Help](#)

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#include <stdlib.h>
#include "cirpp1d_std.h"
#include "pnl/pnl_vector.h"

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

/*////////////////////////////////////// Datas specific to Hull and White //

static double a;                                /*Speed reversion of the Hullwhite model
static double b;
static double rx0;
static double sigma;                            /*Volatility of the Hullwhite model.*/

/*////////////////////////////////////// Tree data //////////////////////////////////

static struct Tree Tr;                          /* The unique tree variable create by Pr

static double VarTree(double r)
{
    /* return the variable 'y' computed in the tree with respect to the 'real' sho
    return r * r;
}

static double Var_y(double s)
{
    /*Variation of the variable tree y at time s (must be independent of a variabl

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double V;

V = sigma * sqrt(s) / 2.0;
return V;
}

static double ExpectCond_y(double x0, double s)
{
    /*Conditional expectation of variable y used in tree at time s starting from t
    double E, x00;
    x00 = 0.5 * sqrt(s * (4 * a * b - sigma * sigma) / (2 - a * s));

    E = x0 + ((a * b / 2 - sigma * sigma / 8) / x0 - a * x0 / 2.0) * s;
    if (x0 < x00)
    {
        E = x00 + ((a * b / 2 - sigma * sigma / 8) / x00 - a * x00 / 2.0) * s;
    }

    return E;
}

////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////
//////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////// Functions of the tree //////////////////////////////////////////////////////////////////
////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////////
static int indiceTime(struct Tree *Meth, double s)
{
    int i = 0;

    if (Meth->t == NULL)
    {
        printf("FATALE ERREUR, PAS DE GRILLE DE TEMPS !");
    }
    else
    {
        while (Meth->t[i] <= s && i <= Meth->Ngrid)
        {
            i++;
        }
    }
}

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    return i - 1;

}

void initPayoff1_tr(struct Tree *Meth, double T0)
{
    int i, j, n;
    /*n is the index time of T0 for an initialization to 1 at that time in the tree*/
    n = indiceTime(Meth, T0);

    /*Allocation of Payofffunc which follows the structure of the tree*/
    Meth->Payofffunc = malloc((n + 1) * sizeof(double *));
    for (i = 0; i < n + 1; i++)
    {
        Meth->Payofffunc[i] = malloc((Meth->TSize[i]) * sizeof(double));
    }

    /*Initialization of the Payofffunc to one at indice time n corresponding to T0
    for (j = 0; j < Meth->TSize[n]; j++)
    {
        Meth->Payofffunc[n][j] = 1;
    }

    /*For the other under value in the tree of payofffunc[][], 0 must be choosen in
    /*Rk: In case of american option this value must be the payoff of the correspo
    for (i = n - 1; i >= 0; i--)
    {
        for (j = 0; j < Meth->TSize[i]; j++)
        {
            Meth->Payofffunc[i][j] = 0;
        }
    }
}

static int SetTimegrid(struct Tree *Meth, int n, double T)
{
    int i;

    Meth->Ngrid = n;
    Meth->Tf = T;

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Meth->t = malloc((Meth->Ngrid + 1) * sizeof(double));

for (i = 0; i < Meth->Ngrid + 1; i++)
{
    Meth->t[i] = i * Meth->Tf / Meth->Ngrid;
}

return 1;
}

static int DeleteTimegrid(struct Tree *Meth)
{
    free(Meth->t);
    return 1;
}

static void SetTree(struct Tree *Meth)
{
    int jmin, jmax, jminprev, jmaxprev;
    double x, xi;
    int h, i, j, k, nv;

    double M, sigmai, mujk, Mij, dx;
    if (Meth->t == NULL)
    {
        printf("FATAL ERROR IN SetTree(), SetTimegrid must be used before SetTree\n");
    }

    jmin = 0;
    jmax = 0;
    xi = 0;
    nv = 1;
    /* Allocation of all the tree variable*/
    Meth->pLRij = malloc((Meth->Ngrid + 1) * sizeof(double *));
    Meth->pLPDo = malloc((Meth->Ngrid) * sizeof(double *));
    Meth->pLPMi = malloc((Meth->Ngrid) * sizeof(double *));
    Meth->pLPUp = malloc((Meth->Ngrid) * sizeof(double *));
    Meth->pLRef = malloc((Meth->Ngrid) * sizeof(int *));
    Meth->TSize = malloc((Meth->Ngrid + 1) * sizeof(int));

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Meth->pLRij[0] = malloc(sizeof(double));

Meth->pLRij[0][0] = xi;
Meth->>TSize[0] = 1;

/* one step backward translation of the tree, there are 3 point in rank 0 for
{
    jmin = -1;
    jmax = +1;
    xi = 0;
    nv = 3;
    free(Meth->pLRij[0]);
    Meth->pLRij[0] = malloc(3 * sizeof(double));
    Meth->pLRij[0][0] = -sqrt(3.) * Var_y(Meth->t[1]);
    Meth->pLRij[0][1] = xi;
    Meth->pLRij[0][2] = +sqrt(3.) * Var_y(Meth->t[1]);
    Meth->>TSize[0] = 3;
}

/* iteration on the time step */
for (i = 1; i <= Meth->Ngrid; i++)
{
    sigmai = Var_y(Meth->t[i] - Meth->t[i - 1]);
    dx = sqrt(3.) * sigmai;
    xi = ExpectCond_y(xi, Meth->t[i] - Meth->t[i - 1]);
    jminprev = jmin;
    jmaxprev = jmax;

    M = ExpectCond_y(Meth->pLRij[i - 1][0], Meth->t[i] - Meth->t[i - 1]);
    jmin = pnl_iround((M - xi) / dx) - 1;
    M = ExpectCond_y(Meth->pLRij[i - 1][nv - 1], Meth->t[i] - Meth->t[i - 1]);
    jmax = pnl_iround((M - xi) / dx) + 1;

    Meth->pLPDo[i - 1] = malloc(nv * sizeof(double));
    Meth->pLPMi[i - 1] = malloc(nv * sizeof(double));
    Meth->pLPUp[i - 1] = malloc(nv * sizeof(double));
    Meth->pLRef[i - 1] = malloc(nv * sizeof(int));

    nv = jmax - jmin + 1;

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Meth->TSize[i] = nv;

Meth->pLRij[i] = malloc(nv * sizeof(double));

for (k = jmin; k <= jmax; k++)
{
    j = k - jmin;

    x = k * dx + xi;
    Meth->pLRij[i][j] = x;

}
for (k = jminprev; k <= jmaxprev; k++)
{
    j = k - jminprev;
    Mij = ExpectCond_y(Meth->pLRij[i - 1][j], Meth->t[i] - Meth->t[i - 1])
    h = pnl_iround((Mij - xi) / dx);

    mujk = Mij - h * dx - xi;

    Meth->pLPUp[i - 1][j] = 1. / 6. + pow(mujk / dx, 2) / 2. + mujk / (2.*
    Meth->pLPMi[i - 1][j] = 2. / 3. - pow(mujk / dx, 2);
    Meth->pLPDo[i - 1][j] = 1. / 6. + pow(mujk / dx, 2) / 2. - mujk / (2.*
    Meth->pLRef[i - 1][j] = h - jmin;

    if (h <= jmin)
    {
        printf("ERROR FATAL JMIN JMAX IN SetTree(), ExpectCond_y() MUST BE
    }
    if (h >= jmax)
    {
        printf("ERROR FATAL JMIN JMAX IN SetTree(), ExpectCond_y() MUST BE
    }

}

}

}

static void TranslateTree(struct Tree *Meth, ZCMarketData *ZCMarket)

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{

    int k, i, j;
    double  alpha, sum, eps;

    if (Meth->t == NULL)
    {
        printf("FATAL ERROR IN TranslateTree(), SetTimegrid() and SetTree() must b
    }
    if (Meth->pLRij == NULL)
    {
        printf("FATAL ERROR IN TranslateTree(), SetTimegrid() and SetTree() must b
    }

    eps = Meth->Tf / Meth->Ngrid;
    alpha = -log(BondPrice(eps, ZCMarket)) / eps;

    Meth->pLQij = malloc((Meth->Ngrid + 1) * sizeof(double *));
    Meth->pLQij[0] = malloc(sizeof(double));
    Meth->pLQij[0][0] = 1.;

    {
        free(Meth->pLQij[0]);
        Meth->pLQij[0] = malloc(3 * sizeof(double));
        Meth->pLQij[0][0] = 0;
        Meth->pLQij[0][1] = 1.;
        Meth->pLQij[0][2] = 0;
    }

    /* Recalculate the 'x' the translated short rate variable in the tree : x=Var
    for (i = 0; i < Meth->Ngrid + 1; i++)
    {
        for (j = 0; j < Meth->TSize[i]; j++)
        {
            Meth->pLRij[i][j] = VarTree(Meth->pLRij[i][j]);
        }
    }

    /* Iteration for alpha translation to obtain the real short rate variable r in
    for (i = 0; i < Meth->Ngrid; i++)
    {

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Meth->P_T = 0.0;
Meth->pLQij[i + 1] = malloc(Meth->TSize[i + 1] * sizeof(double));

for (j = 0; j < Meth->TSize[i]; j++)
{
    Meth->pLRij[i][j] += alpha;
}

for (j = 0; j < Meth->TSize[i + 1]; j++)
{
    sum = 0.0;
    for (k = 0; k < Meth->TSize[i]; k++)
    {
        if (Meth->pLRef[i][k] == j - 1)
        {
            sum += (Meth->pLPUp[i][k] * Meth->pLQij[i][k] * exp(-Meth->pL
        }
        if (Meth->pLRef[i][k] == j)
        {
            sum += (Meth->pLPMi[i][k] * Meth->pLQij[i][k] * exp(-Meth->pL
        }
        if (Meth->pLRef[i][k] == j + 1)
        {
            sum += (Meth->pLPDo[i][k] * Meth->pLQij[i][k] * exp(-Meth->pL
        }
    }

    Meth->pLQij[i + 1][j] = sum;
    Meth->P_T = Meth->P_T + sum;
}

sum = 0;
for (j = 0; j < Meth->TSize[i + 1]; j++)
{
    sum += Meth->pLQij[i + 1][j] * exp(-(Meth->t[i + 1] - Meth->t[i]) * Me
}

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        sum = sum / BondPrice(Meth->t[i + 1] + eps, ZCMarket);
        alpha = log(sum) / (Meth->t[i + 1] - Meth->t[i]);

    }

    /* Last time step alpha translation */
    for (j = 0; j < Meth->TSize[Meth->Ngrid]; j++)
    {
        Meth->pLRij[Meth->Ngrid][j] = VarTree(Meth->pLRij[Meth->Ngrid][j]);
        Meth->pLRij[Meth->Ngrid][j] += alpha;
    }

    /*printf("FIN de la translation de l'arbre des taux, sum = %f\ n", Meth->P_T);
}

static void Computepayoff(struct Tree *Meth, double s)
{
    double ht;
    int i, j, i_end;
    i_end = indiceTime(Meth, s);

    if (Meth->t == NULL)
    {
        printf("FATAL ERROR IN Computepayoff(), SetTimegrid() and SetTree() must b
    }
    if (Meth->pLRij == NULL)
    {
        printf("FATAL ERROR IN Computepayoff(), SetTimegrid() and SetTree() must b
    }

    if (Meth->Payofffunc == NULL)
    {
        initPayoff1_tr(Meth, Meth->Tf);
        printf("DEFAULT PAYOFF 1\ n"); /*Payoff 1 par default.*/
    }

    /* pLQij[i_end][j] register the payoff at expiry time */
    for (j = 0; j < Meth->TSize[i_end]; j++)

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    {
        Meth->pLQij[i_end][j] = Meth->Payoffunc[i_end][j];
    }
    /* Computation in pLQij[i][j] of the value of payoff at time step i, backward
    for (i = i_end - 1; i >= 0; i--)
    {
        for (j = 0; j < Meth->TSize[i]; j++)
        {

            ht = 0;
            ht = exp(- Meth->pLRij[i][j] * (Meth->t[i + 1] - Meth->t[i]));
            ht = ht * (Meth->pLPDo[i][j] * (Meth->pLQij[i + 1][Meth->pLRef[i][j]
                + Meth->pLPMi[i][j] * (Meth->pLQij[i + 1][Meth->pLRef[i][j]
                + Meth->pLPUp[i][j] * (Meth->pLQij[i + 1][Meth->pLRef[i][j]

            /* Compare, in case of american, the computed value with the under nex
            if (ht < Meth->Payoffunc[i][j])
            {
                ht = Meth->Payoffunc[i][j];
            }

            Meth->pLQij[i][j] = ht;

        }
    }

    /* printf("FIN de l'actualisation payoff de l'arbre des taux\ n");    */
}

static double OPTION(struct Tree *Meth)
{
    return Meth->pLQij[0][1];
}

static int DeleteTree(struct Tree *Meth)
{
    int i;

    for (i = 0; i < Meth->Ngrid + 1; i++)

```

[illegible]

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/*////////////////////////////////////
//////////////////////////////////// Specific functions of the product com
////////////////////////////////////

static void initPayoffCAPFLOOR(struct Tree *Meth, double T1, double T2, double K)
{
    double Ki;
    int i, j, n;
    /* Give the incice time for T1 the maturity of the option on the forward Libor
    /* Rk : Tf, the final time of the tree is set to be maturity of the ZC bond B(
    n = indiceTime(Meth, T1);

    Ki = 1. / ((T2 - T1) * K + 1);
    p->Par[0].Val.V_DOUBLE = Ki;

    /* Compute in the tree the ZC bond B(T1,T2), the option on the Libor will be s
    initPayoff1_tr(Meth, T2);
    Computepayoff(Meth, T2);

    /* Allocate the Payofffunc of the tree till time step n*/
    Meth->Payofffunc = malloc((n + 1) * sizeof(double *));
    for (i = 0; i < n + 1; i++)
    {
        Meth->Payofffunc[i] = malloc((Meth->TSize[i]) * sizeof(double));
    }

    /* Initialization of the Payofffunc at the index time n of T1, thanks to the pr
    for (j = 0; j < Meth->TSize[n]; j++)
    {
        Meth->Payofffunc[n][j] = (p->Compute)(p->Par, Meth->pLQij[n][j]);
    }

    /* For European payoff the value of the payoff under n=indiceTime(T1) are zero
    for (i = n - 1; i >= 0; i--)
    {
        for (j = 0; j < Meth->TSize[i]; j++)
        {
            Meth->Payofffunc[i][j] = 0;
        }
    }

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    }

}

double OPTIONr_tr(struct Tree *Meth, double r, double s)
{
    double  theta, R_T;
    int j, Ns, Nr;

    Ns = indiceTime(Meth, s);
    j = 0;

    while (Meth->pLRij[Ns][j] < r && j < Meth->TSize[Ns] - 1)
    {
        j++;
    }
    if (j == 0)
    {
        theta = 0;
    }
    else
    {
        theta = (r - Meth->pLRij[Ns][j - 1]) / (Meth->pLRij[Ns][j] - Meth->pLRij[Ns][j - 1]);
    }
    if (theta > 1)
    {
        theta = 1;
        j = j + 1;
    }

    Nr = j - 1;

    if (Nr < 0)
    {
        Nr = 0;
    }
    if (j > Meth->TSize[Ns] - 2)
    {
        printf("WARNING : Instantaneous futur spot rate is out of tree\ n");
    }
    if (Nr == 0)

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    {
        printf("WARNING : Instantaneous futur spot rate is out of tree\ n");
    }

    R_T = theta * Meth->pLQij[Ns][Nr + 1] + (1 - theta) * Meth->pLQij[Ns][Nr];

    return R_T;
}

/*Cap Floor=Portfolio of zero-bond options*/
/*All details comments for the functions used here are mainly in "hwtree1dinclud
static int capfloor_cirpp1d(int flat_flag, double a0, double b0, double t0, doub
{

    long Ns;
    double cap;
    int i, N;
    double r0;
    ZCMarketData ZCMarket;

    a = a0;
    b = b0;
    sigma = sigma0;
    Ns = NtY * (long)((T - t0) / periodicity);
    Tr.Ngrid = Ns;

    r0 = rcc;
    rx0 = rcc;

    N = (int)floor((T - first_payement) / periodicity);

    Ns = NtY * N;
    cap = 0;

    /* Flag to decide to read or not ZC bond datas in "initialyields.dat" */
    /* If B(0,T) not read then B(0,T)=exp(-FM*T) */
    /* If B(0,T) read then rcc becomes the futur knowing rate name here r0 */
    if (flat_flag == 0)

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    {
        ZCMarket.FlatOrMarket = 0;
        ZCMarket.Rate = r0;
    }
else
    {
        ZCMarket.FlatOrMarket = 1;
        ZCMarket.filename = curve;
        ReadMarketData(&ZCMarket);

        if (T > GET(ZCMarket.tm, ZCMarket.Nvalue - 1))
        {
            printf("\ nError : time bigger than the last time value entered in ini
            exit(EXIT_FAILURE);
        }
    }

/* T defines the final time tree variable (no time can be larger), Ns is the n
SetTimegrid(&Tr, Ns, T);
/* Allocate and initialize the tree*/
SetTree(&Tr);
/* translate the tree by "alpha" */
TranslateTree(&Tr, &ZCMarket);

/* iteration for any caplet/floorlet */
for (i = 0; i < N; i++)
{
    /* Initialize the payoff for an option on L(first_payement+i*periodicity,f
    initPayoffCAPFLOOR(&Tr, first_payement + i * periodicity, first_payement +
    /* Compute the option from first_payement+i*periodicity to 0 in pLQij[] []
    Computepayoff(&Tr, first_payement + i * periodicity);
    /* cumul cap/floor value in case or futur or not */
    if (t0 == 0)
    {
        cap += (1 + K * periodicity) * OPTION(&Tr);
    }
    else
    {
        cap += (1 + K * periodicity) * OPTIONr_tr(&Tr, r0, t0);
    }
}

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    /**delta=0;*/
    *price = cap;
    DeleteTree(&Tr);

    return OK;
}

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

    return capfloor_cirpp1d(ptMod->flat_flag.Val.V_INT,
                           ptMod->a.Val.V_DOUBLE, ptMod->b.Val.V_DOUBLE,
                           ptMod->T.Val.V_DATE, ptMod->Sigma.Val.V_PDOUBLE,
                           MOD(GetYield)(ptMod), MOD(GetCurve)(ptMod),
                           ptOpt->BMaturity.Val.V_DATE,
                           ptOpt->PayOff.Val.V_NUMFUNC_1,
                           ptOpt->Nominal.Val.V_PDOUBLE,
                           ptOpt->FixedRate.Val.V_PDOUBLE,
                           ptOpt->ResetPeriod.Val.V_DATE,
                           ptOpt->FirstResetDate.Val.V_DATE,
                           Met->Par[0].Val.V_LONG,
                           &(Met->Res[0].Val.V_DOUBLE));
}

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

#endif //PremiaCurrentVersion
static int MET(Init)(PricingMethod *Met, Option *Opt)
{

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    if (Met->init == 0)
    {
        Met->init = 1;

        Met->Par[0].Val.V_LONG = 10;

    }
    return OK;
}

PricingMethod MET(TR_CAPFLOOR) =
{
    "TR_Cirpp1d_CAPFLOOR",
    { {"TimeStepNumber for Period", LONG, {100}, ALLOW},
      {" ", PREMIA_NULLTYPE, {0}, FORBID}
    },
    CALC(TR_CAPFLOOR),
    {"Price", DOUBLE, {100}, FORBID}/*,{"Delta",DOUBLE,{100},FORBID} */ , {" ", PR
    CHK_OPT(TR_CAPFLOOR),
    CHK_ok,
    MET(Init)
} ;

```