

[Help](#)

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#if defined(PremiaCurrentVersion) && PremiaCurrentVersion < (2007+2) //The "#els
#else

#include <iostream>
#include <vector>
#include <cmath>

using namespace std;

#include "fft.h"
#include "numerics.h"
#include "levy_fd.h"

Grid::Grid(const double dAl, const double dAr, const int dN)
:
  Al(dAl), Ar(dAr), N(dN)
{
  dx = (Ar - Al) / (N - 1);
}

double init_cond(const double x, const double S0,
                 const double K, const int product)
{
  double S = S0 * exp(x);

  switch (product)
  {
    case 1:
      return (S - K > 0) ? (S - K) : 0; // Call
    case 2:
      return (K - S > 0) ? (K - S) : 0; // Put
    case 3:
      return S - K; // forward
    default:
      myerror("Invalid product number");
  }
  /* just to avoid a warning */
  return 0;
}
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}
double bound_cond(const double x, const double S0, const double K, const double
                  const double ttm, const double r,
                  const int product, const int product_type)
{
    switch (product_type)
    {
        case 1:
            return init_cond(x + r * ttm, S0, K, product); // European
        case 2:
            return (x > 0) ? rebate * exp(r * ttm) : init_cond(x + r * ttm, S0, K, product);
        case 3:
            return (x > 0) ? init_cond(x + r * ttm, S0, K, product) : rebate * exp(r * ttm);
        case 4:
            return rebate * exp(r * ttm); // Double barrier
        default:
            myerror("Invalid option type number");
    }
    /* just to avoid a warning */
    return 0;
}

vector<double> price2(int am, const Levy_measure &measure, int product,
                    const int product_type, double r, double divid,
                    double S0, double K, double rebate, double A1,
                    double Ar, int Nspace, double T, int Ntime,
                    double &price0, double &delta0)
{
    double dt = T / Ntime;

    if ((A1 > 0) || (Ar < 0)) myerror("Error: (A1 > 0) or (Ar < 0)!");
    const double dx = (Ar - A1) / (Nspace - 1);
    if (dx <= 0) myerror("Error: dx = 0!");

    if (dt > dx / (fabs(measure.alpha) + measure.lambda * dx))
        cout << "Stability Condition is not satisfied!" << endl <<
            "Time Discretization Step is changed" << endl ;

    while (dt > dx / (fabs(measure.alpha) + measure.lambda * dx))
    {

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        Ntime += 10;
        dt = T / Ntime;
    }

    const int Kmin = measure.Kmin;
    const int Kmax = measure.Kmax;

    const Grid grid(A1, Ar, Nspace);

    vector<double> u(Nspace), v(Nspace);

    // condition initiale
    for (int i = 0; i < Nspace; i++)
    {
        u[i] = init_cond(grid.x(i), S0, K, product);
    }

    //some useful coefficients
    double ss = measure.sigmadiff_squared;
    double dxx = dx * dx;
    double aux = ss / 2 - (r - divid);

    double a, b, c;
    /*matrix coefficients of the implicit part*/
    if (dx < ss / fabs(aux))
    {
        a = ss / dxx;
        b = ss / 2. / dxx - aux / 2. / dx;
        c = ss / 2. / dxx + aux / 2. / dx;
    }
    else if (aux < 0)
    {
        a = ss / dxx - aux / dx;
        b = ss / 2. / dxx - aux / dx;
        c = ss / 2. / dxx;
    }
    else
    {
        a = ss / dxx + aux / dx;

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    b = ss / 2. / dxx;
    c = ss / 2. / dxx + aux / dx;
}

const int N = Nspace + Kmax - Kmin; //number of non-zero values of u involved
//zero-padding to obtain NN = N + Nz = 2^p
int p = 1;
int NN = 2; //size of auxiliary vectors
while (NN < N)
{
    p++;
    NN = 2 * NN;
}
const int Nz = NN - N; // number of extra zeros

double *mu = new double [NN];
double *mu_img = new double [NN];
double *uaux = new double [NN];
double *uaux_img = new double [NN];
double *somme = new double [NN];
double *somme_img = new double [NN];

/*computation of the Fourier transform of nu*/
for (int i = 0; i < Kmax - Kmin + 1; i++)
{
    mu[i] = (*measure.nu_array)[Kmax - Kmin - i];
    mu_img[i] = 0;
}
for (int i = Kmax - Kmin + 1; i < NN; i++)
{
    mu[i] = 0;
    mu_img[i] = 0;
}
fft1d(mu, mu_img, NN, -1);

double ttm; //time to maturity
for (int n = 0; n < Ntime; n++) //time iterations
{
    ttm = n * dt;

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/*calculation of the discretized integral using FFT*/
for (int i = 0; i < Nspace - 1; i++)
{
    if ((Kmax + 1 + i < 0) || (Kmax + 1 + i >= Nspace))
    {
        uaux[i] = bound_cond(grid.x(Kmax + 1 + i), S0, K, rebate, ttm, r -
    }
    else uaux[i] = u[Kmax + 1 + i];
    uaux_img[i] = 0;
}
for (int i = Nspace - 1; i < Nspace + Nz - 1; i++)
{
    uaux[i] = 0; //zero-padding
    uaux_img[i] = 0;
}
for (int i = Nspace + Nz - 1; i < NN; i++)
{
    if ((Kmin - Nspace - Nz + 1 + i < 0) || (Kmin - Nspace - Nz + 1 + i >=
    {
        uaux[i] = bound_cond(grid.x(Kmin - Nspace - Nz + 1 + i), S0,
                                K, rebate, ttm, r - divid, product, product_t
    }
    else uaux[i] = u[Kmin - Nspace - Nz + 1 + i];
    uaux_img[i] = 0;
}

fft1d(uaux, uaux_img, NN, -1);

for (int i = 0; i < NN; i++)
{
    somme[i] = mu[i] * uaux[i] - mu_img[i] * uaux_img[i];
    somme_img[i] = mu_img[i] * uaux[i] + mu[i] * uaux_img[i];
}
fft1d(somme, somme_img, NN, 1);

/*computation of the right-hand side vector v */

if (measure.alpha < 0) //backward discretization of the first order deriva
{

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v[0] = u[0] + dt * (somme[NN - 1] - measure.alpha * (u[1] - u[0]) / dx
                  - measure.lambda * u[0]) +
      c * dt * bound_cond(grid.x(-1), S0, K, rebate, ttm + dt, r - di

v[Nspace - 1] = u[Nspace - 1] +
      dt * (somme[Nspace - 2] - measure.alpha * (bound_cond(
          - u[Nspace - 1]) / dx - measure.lambda * u[Nspac
      + b * dt * bound_cond(grid.x(Nspace), S0, K, rebate, t

for (int i = 1; i < Nspace - 1; i++)
    v[i] = u[i] + dt * (somme[i - 1] - measure.alpha * (u[i + 1] - u[i])
}
else //forward discretization of the first order derivative
{
    v[0] = u[0] + dt * (somme[NN - 1] - measure.alpha * (u[0] -
        bound_cond(grid.x(-1), S0, K, rebate, ttm, r - div
        - measure.lambda * u[0]) +
    c * dt * bound_cond(grid.x(-1), S0, K, rebate, ttm + dt, r - di

    for (int i = 1; i < Nspace - 1; i++)
        v[i] = u[i] + dt * (somme[i - 1] - measure.alpha * (u[i] - u[i - 1])
    v[Nspace - 1] = u[Nspace - 1] + dt * (somme[Nspace - 2] -
        measure.alpha * (u[Nspace - 1]
            - u[Nspace - 2]) / dx - meas
        + b * dt * bound_cond(grid.x(Nspace), S0, K, rebate, t

}

/*computation of de u^(n+1) using LU-decomposition realized in the routine
u = progonka(Nspace, -dt * c, 1 + dt * a, -dt * b, v);
if (am)
    for (int i = Nspace - 1; i >= 0; i--)
        u[i] = MAX(u[i], exp(r * (ttm + dt)) * init_cond(grid.x(i), S0, K, pro
} //end of time iterations

double actu = exp(-r * T);
int N0 = (int) floor(-A1 / dx);
double S1 = S0 * exp(grid.x(N0 - 1));
double Sm = S0 * exp(grid.x(N0));
double Sr = S0 * exp(grid.x(N0 + 1));

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// S0 is between Sm and Sr
double pricel = actu * u[N0 - 1];
double pricem = actu * u[N0];
double pricer = actu * u[N0 + 1];

//quadratic interpolation
double A = pricel;
double B = (pricem - pricel) / (Sm - S1);
double C = (pricer - A - B * (Sr - S1)) / (Sr - S1) / (Sr - Sm);
price0 = A + B * (S0 - S1) + C * (S0 - S1) * (S0 - Sm);
delta0 = B + C * (2 * S0 - S1 - Sm);

delete [] mu;
delete [] mu_img ;
delete [] uaux;
delete [] uaux_img;
delete [] somme;
delete [] somme_img;

return u;
} //end price2

vector<double> price2c(int am, const Levy_measure &measure, int product,
                    int product_type, double r, double divid,
                    double S0, double K, double rebate,
                    double A1, double Ar, const int Nspace, double T,
                    int Ntime, double &price0, double &delta0)
{
    double dt = T / Ntime;

    if ((A1 > 0) || (Ar < 0)) myerror("Error: (A1 > 0) or (Ar < 0)!");
    const double dx = (Ar - A1) / (Nspace);
    if (dx <= 0) myerror("Error: dx = 0!");

    if (dt > dx / (fabs(measure.alpha) + measure.lambda * dx))
        cout << "Stability Condition is not satisfied!" << endl <<
            "Time Discretization Step is changed" << endl ;

    while (dt > dx / (fabs(measure.alpha) + measure.lambda * dx))

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    {
        Ntime += 10;
        dt = T / Ntime;
    }

const int Kmin = measure.Kmin;
const int Kmax = measure.Kmax;

const Grid grid(Al, Ar, Nspace);

vector<double> u(Nspace), v(Nspace);

// initial condition
for (int i = 0; i < Nspace; i++)
{
    u[i] = init_cond(grid.x(i), S0, K, product);
}

//some useful coefficients
double ss = measure.sigmadiff_squared;
double dxx = dx * dx;
double aux = ss / 2 - (r - divid);

double a, b, c;
if (dx < ss / fabs(aux))
{
    a = ss / dxx;
    b = ss / 2. / dxx - aux / 2. / dx;
    c = ss / 2. / dxx + aux / 2. / dx;
}
else if (aux < 0)
{
    a = ss / dxx - aux / dx;
    b = ss / 2. / dxx - aux / dx;
    c = ss / 2. / dxx;
}
else
{
    a = ss / dxx + aux / dx;

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        b = ss / 2. / dxx;
        c = ss / 2. / dxx + aux / dx;
    }

    const int N = Nspace + Kmax - Kmin; //number of non-zero values of u involved
    //zero-padding to obtain NN = N + Nz = 2^p
    int p = 1;
    int NN = 2; //size of auxiliary vectors
    while (NN < N)
    {
        p++;
        NN = 2 * NN;
    }
    const int Nz = NN - N; // number of extra zeros

    double *mu = new double [NN];
    double *mu_img = new double [NN];
    double *uaux = new double [NN];
    double *uaux_img = new double [NN];
    double *somme = new double [NN];
    double *somme_img = new double [NN];

    /*computation of the Fourier transform of nu*/
    for (int i = 0; i < Kmax - Kmin + 1; i++)
    {
        mu[i] = (*measure.nu_array)[Kmax - Kmin - i];
        mu_img[i] = 0;
    }
    for (int i = Kmax - Kmin + 1; i < NN; i++)
    {
        mu[i] = 0;
        mu_img[i] = 0;
    }
    fft1d(mu, mu_img, NN, -1);

    double ttm; //time to maturity
    for (int n = 0; n < Ntime; n++) //time iterations
    {
        ttm = n * dt;

        /*calculation of the discretized integral using FFT*/

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for (int i = 0; i < Nspace - 1; i++)
{
    if ((Kmax + 1 + i < 0) || (Kmax + 1 + i >= Nspace))
    {
        uaux[i] = bound_cond(grid.x(Kmax + 1 + i), S0, K, rebate, ttm, r -

    }
    else uaux[i] = u[Kmax + 1 + i];
    uaux_img[i] = 0;
}
for (int i = Nspace - 1; i < Nspace + Nz - 1; i++)
{
    uaux[i] = 0; //zero-padding
    uaux_img[i] = 0;
}
for (int i = Nspace + Nz - 1; i < NN; i++)
{
    if ((Kmin - Nspace - Nz + 1 + i < 0) || (Kmin - Nspace - Nz + 1 + i >=
    {
        uaux[i] = bound_cond(grid.x(Kmin - Nspace - Nz + 1 + i), S0,
                                K, rebate, ttm, r - divid, product, product_t

    }
    else uaux[i] = u[Kmin - Nspace - Nz + 1 + i];
    uaux_img[i] = 0;
}

fft1d(uaux, uaux_img, NN, -1);

for (int i = 0; i < NN; i++)
{
    somme[i] = mu[i] * uaux[i] - mu_img[i] * uaux_img[i];
    somme_img[i] = mu_img[i] * uaux[i] + mu[i] * uaux_img[i];
}
fft1d(somme, somme_img, NN, 1);

/*computation of the right-hand side vector v */
/*centered discretization of the first order derivative*/
v[0] = u[0] + dt * (somme[NN - 1] - measure.alpha * (u[1] -
                                bound_cond(grid.x(-1), S0, K, rebate, ttm, r, product,
                                - measure.lambda * u[0])) +
                    c * dt * bound_cond(grid.x(-1), S0, K, rebate, ttm + dt, r, product

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v[Nspace - 1] = u[Nspace - 1] + dt * (somme[Nspace - 2] -
                                         measure.alpha * (bound_cond(grid.x(N
                                         - u[Nspace - 2])) / 2 / dx - meas
                                         + b * dt * bound_cond(grid.x(Nspace), S0, K, rebate, ttm +
for (int i = 1; i < Nspace - 1; i++)
    v[i] = u[i] + dt * (somme[i - 1] - measure.alpha * (u[i + 1] - u[i - 1]))

/*computation of u^(n+1)*/
u = progonka(Nspace, -dt * c, 1 + dt * a, -dt * b, v);
if (am)
    for (int i = Nspace - 1; i >= 0; i--)
        u[i] = MAX(u[i], exp(r * (ttm + dt)) * init_cond(grid.x(i), S0, K, pro

} //end of time iterations

double actu = exp(-r * T);
int N0 = (int) floor(-A1 / dx);
double S1 = S0 * exp(grid.x(N0 - 1));
double Sm = S0 * exp(grid.x(N0));
double Sr = S0 * exp(grid.x(N0 + 1));

// S0 is between Sm and Sr
double pricel = actu * u[N0 - 1];
double pricem = actu * u[N0];
double pricer = actu * u[N0 + 1];

//quadratic interpolation
double A = pricel;
double B = (pricem - pricel) / (Sm - S1);
double C = (pricer - A - B * (Sr - S1)) / (Sr - S1) / (Sr - Sm);
price0 = A + B * (S0 - S1) + C * (S0 - S1) * (S0 - Sm);
delta0 = B + C * (2 * S0 - S1 - Sm);

delete [] mu;
delete [] mu_img ;
delete [] uaux;
delete [] uaux_img;
delete [] somme;
delete [] somme_img;

```

```
    return u;  
} //end price2c  
  
#endif //PremiaCurrentVersion
```