

[Help](#)

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#include <stdlib.h>
#include "
href../../mod/doublehes1d/doublehes1d_std/doublehes1d_std_h_src.pdfhes1d_std.
#include "pnl/pnl_basis.h"
#include "
href../../common/math/alfonsi_h_src.pdfmath/alfonsi.h"
#include "
href../../common/enums_h_src.pdfenums.h"

#if defined(PremiaCurrentVersion) && PremiaCurrentVersion < (2011+2) //The "#els
static int CHK_OPT(MC_AM_Alfonsi_MLSM)(void *Opt, void *Mod)
{
    return NONACTIVE;
}
int CALC(MC_AM_Alfonsi_MLSM)(void *Opt, void *Mod, PricingMethod *Met)
{
    return AVAILABLE_IN_FULL_PREMIA;
}
#else

/** Price of american put/call option using Longstaff-Schwartz algorithm */
/** Heston model is simulated using the method proposed by Alfonsi */
// Exercice dates are : T(0), T(1), ..., T(NbrExerciseDates-1).
// with T(0)=0 and T(NbrExerciseDates-1)=Maturity.
static int MC_AM_Alfonsi_MLSM(NumFunc_1 *p, double S0, double Maturity, double r
{
    int j, m, m_in_money, nbr_var_explicatives, init_mc;
    int flag_SpotPaths, flag_VarPaths, flag_AveragePaths;
    double S_init, continuation_value, discounted_payoff, S_t, V_t, alpha;
    double discount_step, discount, time_step, exercise_date;
    double *VariablesExplicatives;

    PnlMat *OneSpotPaths, *OneVarPaths, *SpotPaths, *VarPaths, *AveragePaths, *Exp
    PnlVect *OptimalPayoff, *RegressionCoeffVect;
    PnlVect *VectToRegress, *InititSpotPaths;
    PnlBasis *basis;

    init_mc = pnl_rand_init(generator, NbrExerciseDates * NbrStepPerPeriod, NbrMCs
    if (init_mc != OK) return init_mc;
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alpha = 0.1 / Maturity;
nbr_var_explicatives = 2;

basis = pnl_basis_create(basis_name, DimApprox, nbr_var_explicatives);

VariablesExplicatives = malloc(nbr_var_explicatives * sizeof(double));

ExplicativeVariables = pnl_mat_create(NbrMCsimulation, nbr_var_explicatives);
OptimalPayoff = pnl_vect_create(NbrMCsimulation); // Payoff if following opti
InititSpotPaths = pnl_vect_create_from_double(NbrMCsimulation, S0);
VectToRegress = pnl_vect_create(NbrMCsimulation);

RegressionCoeffVect = pnl_vect_create(0); // Regression coefficient.
SpotPaths = pnl_mat_create(NbrExerciseDates, NbrMCsimulation); // Matrix of th
VarPaths = pnl_mat_create(NbrExerciseDates, NbrMCsimulation); // Matrix of the
AveragePaths = pnl_mat_create(0, 0);
OneSpotPaths = pnl_mat_create(0, 0);
OneVarPaths = pnl_mat_create(0, 0);

time_step = Maturity / (double)(NbrExerciseDates - 1);
discount_step = exp(-r * time_step);
discount = exp(-r * Maturity);

/* We store Spot and Variance*/
flag_SpotPaths = 1;
flag_VarPaths = 1;
flag_AveragePaths = 0;

HestonSimulation_Alfonsi(flag_SpotPaths, OneSpotPaths, flag_VarPaths, OneVarPa

for (m = 0; m < NbrMCsimulation; m++)
{
    LET(InititSpotPaths, m) = MGET(OneSpotPaths, 1, m);
}

// Simulation of the whole paths
for (m = 0; m < NbrMCsimulation; m++)
{
    S_init = GET(InititSpotPaths, m);
    HestonSimulation_Alfonsi(flag_SpotPaths, OneSpotPaths, flag_VarPaths, OneV

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    for (j = 0; j < NbrExerciseDates; j++)
    {
        MLET(SpotPaths, j, m) = MGET(OneSpotPaths, j, 0);
        MLET(VarPaths, j, m) = MGET(OneVarPaths, j, 0);
    }
}

// At maturity, the price of the option = discounted_payoff
exercise_date = Maturity;
for (m = 0; m < NbrMCsimulation; m++)
{
    S_t = MGET(SpotPaths, NbrExerciseDates - 1, m); // Simulated value of the
    LET(OptimalPayoff, m) = discount * (p->Compute)(p->Par, S_t) / S0; // Disc
}

for (j = NbrExerciseDates - 2; j >= 0; j--)
{
    /** Least square fitting **/
    exercise_date -= time_step;
    discount /= discount_step;

    m_in_money = 0;
    pnl_mat_resize(ExplicativeVariables, NbrMCsimulation, nbr_var_explicatives);
    pnl_vect_resize(VectToRegress, NbrMCsimulation);
    for (m = 0; m < NbrMCsimulation; m++)
    {
        V_t = MGET(VarPaths, j, m); // Simulated value of the variance at t=ex
        S_t = MGET(SpotPaths, j, m); // Simulated value of the spot at t=exerc

        discounted_payoff = discount * (p->Compute)(p->Par, S_t) / S0;

        if (discounted_payoff > 0)
        {
            MLET(ExplicativeVariables, m_in_money, 0) = S_t / S0;
            MLET(ExplicativeVariables, m_in_money, 1) = V_t / V0;

            LET(VectToRegress, m_in_money) = GET(OptimalPayoff, m);
            m_in_money++;
        }
    }
}

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pnl_mat_resize(ExplicativeVariables, m_in_money, nbr_var_explicatives);
pnl_vect_resize(VectToRegress, m_in_money);

pnl_basis_fit_ls(basis, RegressionCoeffVect, ExplicativeVariables, VectToR

/** Dynamical programming equation */
for (m = 0; m < NbrMCsimulation; m++)
{
    V_t = MGET(VarPaths, j, m);
    S_t = MGET(SpotPaths, j, m);
    discounted_payoff = discount * (p->Compute)(p->Par, S_t) / S0; // Disc

    if (discounted_payoff > 0.) // If the payoff is null, the OptimalPayof
    {
        VariablesExplicatives[0] = S_t / S0;
        VariablesExplicatives[1] = V_t / V0;

        continuation_value = pnl_basis_eval(basis, RegressionCoeffVect, Va

        if (discounted_payoff > continuation_value)
        {
            LET(OptimalPayoff, m) = discounted_payoff;
        }
    }
}

pnl_mat_resize(ExplicativeVariables, NbrMCsimulation, nbr_var_explicatives);
pnl_vect_resize(VectToRegress, NbrMCsimulation);
for (m = 0; m < NbrMCsimulation; m++)
{
    V_t = MGET(VarPaths, 0, m);
    S_t = MGET(SpotPaths, 0, m);

    MLET(ExplicativeVariables, m, 0) = S_t / S0;
    MLET(ExplicativeVariables, m, 1) = V_t / V0;

    LET(VectToRegress, m) = GET(OptimalPayoff, m);
}
pnl_basis_fit_ls(basis, RegressionCoeffVect, ExplicativeVariables, VectToRegre

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VariablesExplicatives[0] = 1.;
VariablesExplicatives[1] = 1.;

*ptPriceAm = S0 * pnl_basis_eval(basis, RegressionCoeffVect, VariablesExplicat

*ptDeltaAm = pnl_basis_eval_D(basis, RegressionCoeffVect, VariablesExplicative

free(VariablesExplicatives);
pnl_basis_free(&basis);
pnl_mat_free(&SpotPaths);
pnl_mat_free(&VarPaths);
pnl_mat_free(&AveragePaths);
pnl_mat_free(&ExplicativeVariables);
pnl_mat_free(&OneSpotPaths);
pnl_mat_free(&OneVarPaths);

pnl_vect_free(&OptimalPayoff);
pnl_vect_free(&RegressionCoeffVect);
pnl_vect_free(&InititSpotPaths);
pnl_vect_free(&VectToRegress);

return OK;
}

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

    double r, divid;

    r = log(1. + ptMod->R.Val.V_DOUBLE / 100.);
    divid = log(1. + ptMod->Divid.Val.V_DOUBLE / 100.);
    Met->Par[1].Val.V_INT = MAX(2, Met->Par[1].Val.V_INT); // At least two exercis

    return MC_AM_Alfonsi_MLSM(ptOpt->PayOff.Val.V_NUMFUNC_1,
                               ptMod->S0.Val.V_PDOUBLE,
                               ptOpt->Maturity.Val.V_DATE - ptMod->T.Val.V_DATE,
                               r,

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        divid,
        ptMod->Sigma0.Val.V_PDOUBLE,
        ptMod->MeanReversion.Val.V_PDOUBLE,
        ptMod->LongRunVariance.Val.V_PDOUBLE,
        ptMod->Sigma.Val.V_PDOUBLE,
        ptMod->Rho.Val.V_PDOUBLE,
        Met->Par[0].Val.V_LONG,
        Met->Par[1].Val.V_INT,
        Met->Par[2].Val.V_INT,
        Met->Par[3].Val.V_ENUM.value,
        Met->Par[4].Val.V_ENUM.value,
        Met->Par[5].Val.V_INT,
        Met->Par[6].Val.V_ENUM.value,
        &(Met->Res[0].Val.V_DOUBLE),
        &(Met->Res[1].Val.V_DOUBLE));
    }

static int CHK_OPT(MC_AM_Alfonsi_MLSM)(void *Opt, void *Mod)
{
    Option *ptOpt = (Option *)Opt;
    TYPEOPT *opt = (TYPEOPT *) (ptOpt->TypeOpt);

    if ((opt->EuOrAm).Val.V_BOOL == AMER)
        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 = 50000;
        Met->Par[1].Val.V_INT = 20;
        Met->Par[2].Val.V_INT = 1;
        Met->Par[3].Val.V_ENUM.value = 0;
        Met->Par[3].Val.V_ENUM.members = &PremiaEnumRNGs;
        Met->Par[4].Val.V_ENUM.value = 0;
    }
}

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        Met->Par[4].Val.V_ENUM.members = &PremiaEnumBasis;
        Met->Par[5].Val.V_INT = 10;
        Met->Par[6].Val.V_ENUM.value = 2;
        Met->Par[6].Val.V_ENUM.members = &PremiaEnumCirOrder;
    }

    return OK;
}

PricingMethod MET(MC_AM_Alfonsi_MLSM) =
{
    "MC_AM_Alfonsi_MLSM",
    {
        {"N Simulations", LONG, {100}, ALLOW},
        {"N Exercise Dates", INT, {100}, ALLOW},
        {"N Steps per Period", INT, {100}, ALLOW},
        {"RandomGenerator", ENUM, {100}, ALLOW},
        {"Basis", ENUM, {100}, ALLOW},
        {"Dimension Approximation", INT, {100}, ALLOW},
        {"Cir Order", ENUM, {100}, ALLOW},
        {" ", PREMIA_NULLTYPE, {0}, FORBID}
    },
    CALC(MC_AM_Alfonsi_MLSM),
    { {"Price", DOUBLE, {100}, FORBID},
      {"Delta", DOUBLE, {100}, FORBID},
      {" ", PREMIA_NULLTYPE, {0}, FORBID}
    },
    CHK_OPT(MC_AM_Alfonsi_MLSM),
    CHK_ok,
    MET(Init)
};

```