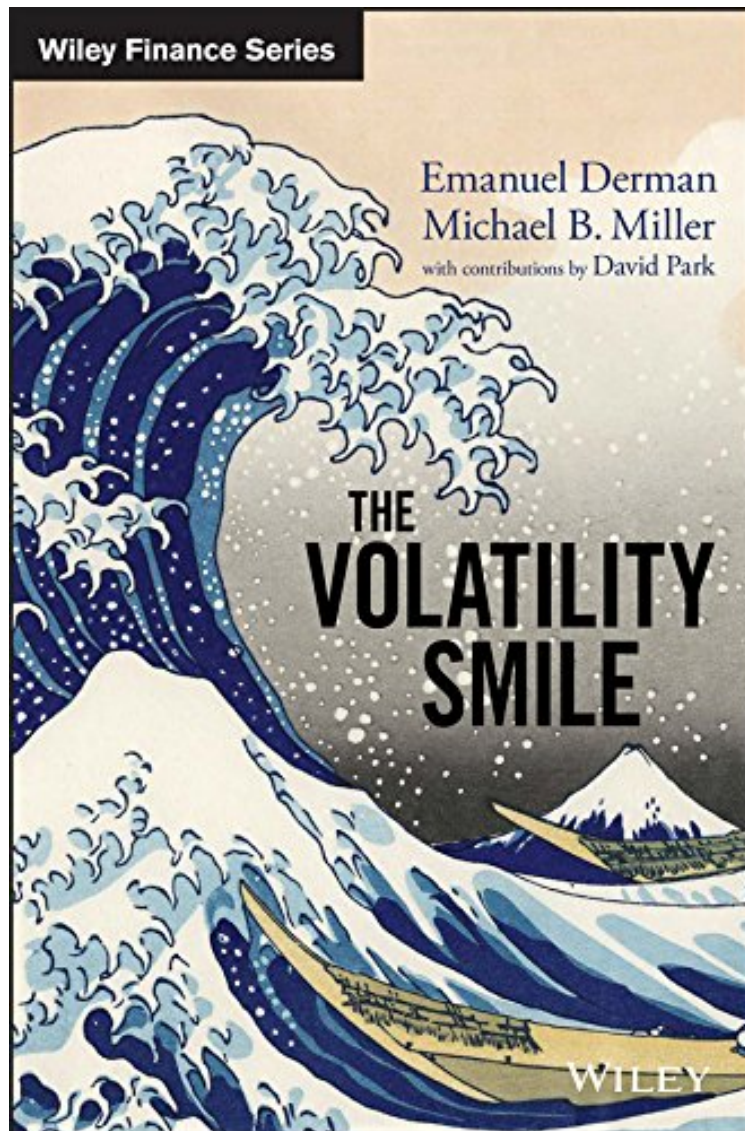


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## The Volatility Smile (Wiley Finance)

*Emanuel Derman, Michael B. Miller*  
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**Emanuel Derman, Michael B. Miller : The Volatility Smile (Wiley Finance)** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Volatility Smile (Wiley Finance):

8 of 9 people found the following review helpful. An excellent book to help quants to think on their own and develop good models. By M. Carreira Emanuel Derman's "The Volatility Smile" is an excellent book for those who have learned something about derivatives and now need to think on their own. More than just repeating known formulas and theorems, the author is always careful to distinguish between theories and models, alternating concepts and practice (including end-of-chapter exercises). I really enjoyed Chapters 14 to 18, dealing with Local Volatility and

its consequences. As one of the first quants (Bruno Dupire being the other) to develop and publish a local volatility model, Derman explains clearly what is the goal of the model and shows how to observe and test its assumptions. Recommended for those who are learning quantitative finance and a useful addition even to experienced practitioners, who might benefit from the clear expositions in the book in order to better understand how far their results should carry and how better to communicate them. 0 of 0 people found the following review helpful. Five Stars By Kogler David Well written even for those with basic understanding of options math.. 1 of 2 people found the following review helpful. Emanuel Derman's books are always amazing and inspirational - My Life as A Quant By bdy2101 Emanuel Derman's books are always amazing and inspirational - My Life as A Quant, Models. Behaving. Badly and now The Volatility Smile, an excellent book full of insight and intuition, an outstanding guide for exciting volatility world!

The Volatility Smile The Black-Scholes-Merton option model was the greatest innovation of 20th century finance, and remains the most widely applied theory in all of finance. Despite this success, the model is fundamentally at odds with the observed behavior of option markets: a graph of implied volatilities against strike will typically display a curve or skew, which practitioners refer to as the smile, and which the model cannot explain. Option valuation is not a solved problem, and the past forty years have witnessed an abundance of new models that try to reconcile theory with markets. The Volatility Smile presents a unified treatment of the Black-Scholes-Merton model and the more advanced models that have replaced it. It is also a book about the principles of financial valuation and how to apply them. Celebrated author and quant Emanuel Derman and Michael B. Miller explain not just the mathematics but the ideas behind the models. By examining the foundations, the implementation, and the pros and cons of various models, and by carefully exploring their derivations and their assumptions, readers will learn not only how to handle the volatility smile but how to evaluate and build their own financial models. Topics covered include: The principles of valuation Static and dynamic replication The Black-Scholes-Merton model Hedging strategies Transaction costs The behavior of the volatility smile Implied distributions Local volatility models Stochastic volatility models Jump-diffusion models The first half of the book, Chapters 1 through 13, can serve as a standalone textbook for a course on option valuation and the Black-Scholes-Merton model, presenting the principles of financial modeling, several derivations of the model, and a detailed discussion of how it is used in practice. The second half focuses on the behavior of the volatility smile, and, in conjunction with the first half, can be used for as the basis for a more advanced course.

From the Inside Flap The Volatility Smile provides an accessible account of both the classic Black-Scholes-Merton option model and the newer extensions of the model that have been developed over the past forty years. In contrast to textbooks that accentuate formality over intuition and understanding, The Volatility Smile explores both the ideas and the mathematics behind the models, walking a middle line between the rigor of the academic world and the practical insights of the trading desk. Based on a clear formulation of the principles of financial modeling, The Volatility Smile is also a book about how to evaluate and build financial models. Prior to the 1987 global stock market crash, the Black-Scholes-Merton option valuation model seemed to describe option markets reasonably well. Since the crash, however, equity index option markets have displayed a persistent volatility smile, in blatant disagreement with the Black-Scholes-Merton model. Quants around the world have labored over the preceding decades to extend the Black-Scholes-Merton model to accommodate this anomaly.