Valuing vulnerable Geometric Asian Option

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ABSTRACT

An option on the defaultable instrument is prone to default risk arising from the probability that instruments issuer could not honor its contractual obligations. Under this financial circumstance, we consider vulnerable Asian options. In this paper, we obtain parabolic partial differential equations with time-dependent coefficients on the vulnerable Asian option model and derive the closed formula of the pricing of the vulnerable geometric Asian option using the pricing of the vulnerable European option with time-dependent coefficients.

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