

## [Help](#)

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#include <stdlib.h>
#include "
href../../mod/bs1d/bs1d_lim/bs1d_lim_h_src.pdfbs1d_lim.h"
#include "
href../../common/error_msg_h_src.pdferror_msg.h"

static int DermanKani_92(int am, double s, NumFunc_1 *p, double t, double l, do
{
    int i, j, eta0, npoints;
    double u, d, h, pu, pd, a1, stock, upperstock, eta, critical_node, pl, one_min
    double *P, *iv;
    int odd;
    double flat_price = 0., up_price;

    /*Price, intrinsic value arrays*/
    P = malloc((N + 1) * sizeof(double));
    if (P == NULL)
        return MEMORY_ALLOCATION_FAILURE;
    iv = malloc((2 * N + 1) * sizeof(double));
    if (iv == NULL)
        return MEMORY_ALLOCATION_FAILURE;

    /*Up and Down factors*/
    h = t / (double)N;
    a1 = exp(h * (r - divid));
    u = exp(sigma * sqrt(h));
    d = 1. / u;

    /*Risk-Neutral Probability*/
    pu = (a1 - d) / (u - d);
    pd = 1. - pu;
    pu *= exp(-r * h);
    pd *= exp(-r * h);

    /*Number of down moves just before breaching the barrier*/
    eta = log(s / l) / (sigma * sqrt(h));
    eta0 = (int)floor(eta);

    if (eta0 > N)
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    eta0 = N;

    /*Weights for the linear interpolation at the critical node*/
    /*Node above the barrier*/
    critical_node = s * exp(-(double)eta0 * sigma * sqrt(h));
    pl = (1 - d * critical_node) / (critical_node - d * critical_node);
    one_minus_pl = 1. - pl;

    /*Intrinsic value initialization*/
    upperstock = s;
    for (i = 0; i < N; i++)
        upperstock *= u;
    stock = upperstock;
    for (i = 0; i <= N + eta0; i++)
    {
        iv[i] = (p->Compute)(p->Par, stock);
        stock *= d;
    }

    /*Terminal Values*/
    npoints = eta0 + (N - eta0) / 2;
    for (j = 0; j <= npoints; j++)
        P[j] = iv[2 * j];
    /*For the critical node at the next iteration*/
    P[npoints + 1] = rebate;

    /*Backward Resolution*/
    if (eta0 > 0) /*The first mesh does not breach the barrier*/
    {

        /*First part-the barrier is active*/
        odd = 1;
        for (i = eta0; i < N - 1; i++)
            odd = !odd;

        if (!odd) npoints = npoints - 1;

        for (i = 1; i <= N - eta0; i++)
        {
            for (j = 0; j <= npoints; j++)
            {

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        P[j] = pu * P[j] + pd * P[j + 1];
        if (am)
            P[j] = MAX(iv[i + 2 * j], P[j]);
    }
    /*Special handling of the critical node*/
    if (odd)
    {
        P[npoints] = pl * rebate + one_minus_pl * P[npoints];
    }
    /*For the critical node at the next iteration*/
    if (odd)
    {
        npoints = npoints - 1;
    }
    else
        P[npoints + 1] = rebate;

    odd = !odd;
}

/*Second part-the barrier is strictly below the tree*/
npoints = eta0 - 1;
for (i = N - eta0 + 1; i < N; i++)
{
    for (j = 0; j <= npoints; j++)
    {
        P[j] = pu * P[j] + pd * P[j + 1];
        if (am)
            P[j] = MAX(iv[i + 2 * j], P[j]);
    }

    npoints = npoints - 1;
}

/*Delta*/
*ptdelta = (P[0] - P[1]) / (s * u - s * d);

/*First time step*/
P[0] = pu * P[0] + pd * P[1];

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    if (am)
        P[0] = MAX(iv[N], P[0]);
    /*Price*/
    *ptprice = P[0];
}
else /*eta0=0, the first mesh breaches the barrier*/
{
    /*The barrier is always active*/
    odd = 1;
    for (i = eta0; i < N - 1; i++)
        odd = !odd;

    if (!odd) npoints = npoints - 1;

    for (i = 1; i <= N - eta0 - 1; i++) /*We go backward until the next date*/
    {

        flat_price = P[1]; /*Only for the delta*/

        for (j = 0; j <= npoints; j++)
        {
            P[j] = pu * P[j] + pd * P[j + 1];
            if (am)
                P[j] = MAX(iv[i + 2 * j], P[j]);
        }
        /*Special handling of the critical node*/
        if (odd)
        {
            P[npoints] = pl * rebate + one_minus_pl * P[npoints];
        }

        if (odd)
        {
            npoints = npoints - 1;
        }
        else
            P[npoints + 1] = rebate; /*For the critical node at the next iteration*/

        odd = !odd;
    }
}

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    }

    up_price = P[0]; /*For the delta*/

    /*First time step*/
    P[0] = pu * P[0] + pd * P[1];
    /*Special handling of the critical node*/
    P[0] = pl * rebate + one_minus_pl * P[0];
    if (am)
        P[0] = MAX(iv[N], P[0]);

    /*Price*/
    *ptprice = P[0];

    /*Delta*/
    /*Corresponds to setting a third point at level s between u*s and d*s*/
    /*One computes the finite difference approximation between s and us*/
    *ptdelta = (up_price - (exp(-r * h) * flat_price + exp(r * h) * P[0]) * .5

}

/*Memory Desallocation*/
free(P);
free(iv);

return OK;
}

int CALC(TR_DermanKani)(void *Opt, void *Mod, PricingMethod *Met)
{
    TYPEOPT *ptOpt = (TYPEOPT *)Opt;
    TYPEMOD *ptMod = (TYPEMOD *)Mod;
    double r, divid, limit, rebate;

    r = log(1. + ptMod->R.Val.V_DOUBLE / 100.);
    divid = log(1. + ptMod->Divid.Val.V_DOUBLE / 100.);
    limit = ((ptOpt->Limit.Val.V_NUMFUNC_1)->Compute)((ptOpt->Limit.Val.V_NUMFUNC_1)->Compute);
    rebate = ((ptOpt->Rebate.Val.V_NUMFUNC_1)->Compute)((ptOpt->Rebate.Val.V_NUMFUNC_1)->Compute);
}

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        return DermanKani_92(ptOpt->EuOrAm.Val.V_BOOL, ptMod->S0.Val.V_PDOUBLE,
                               ptOpt->PayOff.Val.V_NUMFUNC_1, ptOpt->Maturity.Val.V_DATE,
                               r, divid, ptMod->Sigma.Val.V_PDOUBLE, Met->Par[0].Val.V_INT2,
                               &(Met->Res[0].Val.V_DOUBLE), &(Met->Res[1].Val.V_DOUBLE))
    }

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

    if ((opt->OutOrIn).Val.V_BOOL == OUT)
        if ((opt->DownOrUp).Val.V_BOOL == DOWN)
            if ((opt->Parisian).Val.V_BOOL == FALSE)
                return OK;
    return WRONG;
}

static int MET(Init)(PricingMethod *Met, Option *Opt)
{
    if (Met->init == 0)
    {
        Met->init = 1;
        Met->Par[0].Val.V_INT2 = 100;
    }

    return OK;
}

PricingMethod MET(TR_DermanKani) =
{
    "TR_DermanKani",
    {"StepNumber", INT2, {100}, ALLOW}, {" ", PREMIA_NULLTYPE, {0}, FORBID}},
    CALC(TR_DermanKani),
    {"Price", DOUBLE, {100}, FORBID}, {"Delta", DOUBLE, {100}, FORBID} , {" ", PREMIA_NULLTYPE, {0}, FORBID}},
    CHK_OPT(TR_DermanKani),
    CHK_tree,
    MET(Init)
};

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