

[Help](#)

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#include <stdlib.h>
#include "
href../../mod/bs1d/bs1d_pad/bs1d_pad_h_src.pdfbs1d_pad.h"
#include "
href../../common/error_msg_h_src.pdferror_msg.h"
#define BIG_DOUBLE 1.0e6

int CALC(DynamicHedgingSimulator)(void *Opt, void *Mod, PricingMethod *Met, Dyna
{
    TYPEOPT *ptOpt = (TYPEOPT *)Opt;
    TYPEMOD *ptMod = (TYPEMOD *)Mod;
    int type_generator, error, init_mc;
    long path_number, hedge_number, i, j;
    double step_hedge, initial_stock, path_dep, initial_path_dep, initial_time, st
    double cash_account, stock_account, cash_rate, stock_rate;
    double pl_sample, mean_pl, var_pl, min_pl, max_pl;
    double exp_muxh, sigmaxsqqrth;
    double r, divid;

    /* Variables needed for exercise time of american options */
    int n_us;
    double sigma_us, /* Square deviation for the simulation of n_us */
        m_us; /* Mean --- */

    /* Variables needed for Brownian bridge */
    double Bridge = 0., d_Bridge, T1, BridgeT1, StockT1, H, sigma, mu; /* Brownian
    double currentT;

    /* Variables needed for Graphic outputs */
    double *stock_array, *pl_array, *pad_array, current_mean_pl, median_pl = 0.;
    int k;
    long size;
    double current_date;

    /***** Initialization of the test's parameters *****/
    initial_stock = ptMod->S0.Val.V_PDOUBLE;
    initial_path_dep = (ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[3].Val.V_PDOUBLE;
    initial_time = ptMod->T.Val.V_DATE;
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type_generator = Test->Par[0].Val.V_INT;
path_number = Test->Par[1].Val.V_LONG;
hedge_number = Test->Par[2].Val.V_LONG;
current_date = ptMod->T.Val.V_DATE;

step_hedge = (ptOpt->Maturity.Val.V_DATE - ptMod->T.Val.V_DATE) / (double)hedge_number;

r = log(1. + ptMod->R.Val.V_DOUBLE / 100.);

divid = log(1. + ptMod->Divid.Val.V_DOUBLE / 100.);
cash_rate = exp(r * step_hedge);
stock_rate = exp(divid * step_hedge) - 1.;

sigmaxsqrth = ptMod->Sigma.Val.V_PDOUBLE * sqrt(step_hedge);
exp_muxh = exp(ptMod->Mu.Val.V_DOUBLE * step_hedge - 0.5 * SQR(sigmaxsqrth));

mean_pl = 0.0;
var_pl = 0.0;
min_pl = BIG_DOUBLE;
max_pl = -BIG_DOUBLE;

init_mc = pnl_rand_init(type_generator, (int)hedge_number, path_number);
if (init_mc == OK)
{
    /* Determining exercise time for american options */
    m_us = 0.0;
    sigma_us = 0.0;

    n_us = hedge_number;
    if ((ptOpt->EuOrAm.Val.V_BOOL == EURO) || (Test->Par[3].Val.V_BOOL == 0))
        n_us = hedge_number;

    else if (Test->Par[3].Val.V_BOOL == 1) /* uniform on [0,hedge_number] */
        n_us = (int)floor(pnl_rand_uni(type_generator) * (double)hedge_number) + 1;

    else if (Test->Par[3].Val.V_BOOL == 2) /* "Integer" gaussian centered on t */
    {
        m_us = (int)floor(hedge_number / 2.0);
        sigma_us = (int)floor(hedge_number / 6.0);
    }
}

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        n_us = (int)floor(m_us + sigma_us * pnl_rand_normal(type_generator)) +
        if (n_us < 0)
            n_us = 0;
        else if (n_us > hedge_number)
            n_us = hedge_number;
    };

/* Some initializations for Brownian Bridge */
sigma = ptMod->Sigma.Val.V_PDOUBLE;
mu = ptMod->Mu.Val.V_DOUBLE;
T1 = Test->Par[6].Val.V_DATE - ptMod->T.Val.V_DATE;
StockT1 = Test->Par[5].Val.V_PDOUBLE;
BridgeT1 = (log(StockT1 / initial_stock) - (mu - SQR(sigma) / 2.0) * T1) /

/* Graphic outputs initializations and dynamical memory allocutions */
current_mean_pl = 0.0;
size = hedge_number + 1;

if ((stock_array = malloc(size * sizeof(double))) == NULL)
    return MEMORY_ALLOCATION_FAILURE;
if ((pl_array = malloc(size * sizeof(double))) == NULL)
    return MEMORY_ALLOCATION_FAILURE;
if ((pad_array = malloc(size * sizeof(double))) == NULL)
    return MEMORY_ALLOCATION_FAILURE;

for (k = 5; k <= 14; k++)
{
    if (Test->Res[k].Val.V_PNLVECT != NULL)
        pnl_vect_resize(Test->Res[k].Val.V_PNLVECT, size);
    else if ((Test->Res[k].Val.V_PNLVECT = pnl_vect_create(size)) == NULL)
        return MEMORY_ALLOCATION_FAILURE;
}

if (Test->Res[15].Val.V_PNLVECT != NULL) pnl_vect_resize(Test->Res[15].Val
else if ((Test->Res[15].Val.V_PNLVECT = pnl_vect_create(2)) == NULL)
    return MEMORY_ALLOCATION_FAILURE;
if (Test->Res[16].Val.V_PNLVECT != NULL) pnl_vect_resize(Test->Res[16].Val
else if ((Test->Res[16].Val.V_PNLVECT = pnl_vect_create(2)) == NULL) /* ex
    return MEMORY_ALLOCATION_FAILURE;

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for (k = 0; k <= hedge_number; k++)
{
    LET(Test->Res[5].Val.V_PNLVECT, k) = current_date + k * step_hedge;
}
if (Test->Par[4].Val.V_BOOL == 1)
{
    Test->Res[15].Val.V_PNLVECT->array[0] = current_date + T1;
    Test->Res[15].Val.V_PNLVECT->array[1] = StockT1;
}
else
{
    Test->Res[15].Val.V_PNLVECT->array[0] = current_date;
    Test->Res[15].Val.V_PNLVECT->array[1] = initial_stock;
}

/***** Trajectories of the stock *****/
for (i = 0; i < path_number; i++)
{
    /* computing selling-price and delta */
    ptMod->T.Val.V_DATE = initial_time;
    ptMod->S0.Val.V_PDOUBLE = initial_stock;
    (ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[4].Val.V_PDOUBLE = initial_path_
initial_path_dep;
    if ((error = (Met->Compute)(Opt, Mod, Met)))
    {
        ptMod->T.Val.V_DATE = initial_time;
        ptMod->S0.Val.V_PDOUBLE = initial_stock;
        (ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[4].Val.V_PDOUBLE =
        return error;
    };
    selling_price = Met->Res[0].Val.V_DOUBLE;
    delta = Met->Res[1].Val.V_DOUBLE;

    /* computing cash_account and stock_account */
    cash_account = selling_price - delta * initial_stock;
    stock_account = delta * initial_stock;

    stock = initial_stock;
    path_dep = initial_path_dep;
}

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stock_array[0] = stock;
pl_array[0] = 0;
pad_array[0] = path_dep;

/* Brownian bridge's initialization */
if (Test->Par[4].Val.V_BOOL == 1) /* With brownian bridge */
{
    H = 0.0;
    Bridge = 0.0;
}

/***** Dynamic Hedge *****/
for (j = 1; (j < hedge_number) && (j < n_us); j++)
{
    ptMod->T.Val.V_DATE = ptMod->T.Val.V_DATE + step_hedge;
    previous_delta = delta;

    /* Capitalization of cash_account and yielding dividends */
    cash_account *= cash_rate;
    cash_account += stock_rate * stock_account;

    /* computing the new stock's value */
    currentT = j * step_hedge;
    H = step_hedge / (T1 - currentT);
    if ((currentT < T1) && (H <= 1) && (Test->Par[4].Val.V_BOOL == 1))
    {
        d_Bridge = (BridgeT1 - Bridge) * H + sqrt(step_hedge * (1 - H));
        Bridge += d_Bridge;
        stock *= exp_muxh * exp(sigma * d_Bridge);
    }
    else /* After or without using Brownian Bridge */
        stock *= exp_muxh * exp(sigmamaxsqrtth * pnl_rand_normal(type_gener

    /* computing the new selling-price and the new delta */
    path_dep = ((ptOpt->PathDep.Val.V_NUMFUNC_2)->Compute)((ptOpt->Pat
    ptMod->S0.Val.V_PDOUBLE = stock;
    (ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[4].Val.V_PDOUBLE = path_dep;
    if ((error = (Met->Compute)(Opt, Mod, Met)))
    {
        ptMod->T.Val.V_DATE = initial_time;
    }
}

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        ptMod->S0.Val.V_PDOUBLE = initial_stock;
        (ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[4].Val.V_PDOUBLE = initial_stock;
        return error;
    };
    delta = Met->Res[1].Val.V_DOUBLE;

    /* computing new cash_account and new stock_account */
    cash_account -= (delta - previous_delta) * stock;
    stock_account = delta * stock;

    stock_array[j] = stock;
    pl_array[j] = cash_account - Met->Res[0].Val.V_DOUBLE + delta * stock;
    pad_array[j] = path_dep;
} /*j*/

/***** Last hedge *****/
ptMod->T.Val.V_DATE = ptMod->T.Val.V_DATE + step_hedge;

/* Capitalization of cash_account and yielding dividends */
cash_account *= cash_rate;
cash_account += stock_rate * stock_account;

/* computing the last stock's value */
currentT = j * step_hedge;
H = step_hedge / (T1 - currentT);
if ((currentT < T1) && (H <= 1) && (Test->Par[4].Val.V_BOOL == 1)) /*
{
    d_Bridge = (BridgeT1 - Bridge) * H + sqrt(step_hedge * (1 - H)) *
    Bridge += d_Bridge;
    stock *= exp_muxh * exp(sigma * d_Bridge);
}
else /* After or without using Brownian Bridge */
    stock *= exp_muxh * exp(sigmamaxsqrth * pnl_rand_normal(type_generator

path_dep = ((ptOpt->PathDep.Val.V_NUMFUNC_2)->Compute)((ptOpt->PathDep

/* Capitalization of cash_account and computing the P&L using the PayOff
cash_account = cash_account - ((ptOpt->PayOff.Val.V_NUMFUNC_2)->Compute
pl_sample = cash_account * exp((hedge_number - n_us) * log(cash_rate))

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if (n_us < hedge_number)
    for (k = n_us; k <= hedge_number; k++)
    {
        stock_array[k] = stock_array[n_us - 1];
        pl_array[k] = pl_array[n_us - 1];
        pad_array[k] = pad_array[n_us - 1];
    }
else
    {
        stock_array[hedge_number] = stock;
        pl_array[hedge_number] = pl_sample;
        pad_array[hedge_number] = path_dep;
    }

mean_pl = mean_pl + pl_sample;
var_pl = var_pl + SQR(pl_sample);
min_pl = MIN(pl_sample, min_pl);
max_pl = MAX(pl_sample, max_pl);

/* Selection of trajectories (Spot and P&L) for graphic outputs */
if (i == 0)
    {
        for (k = 0; k <= hedge_number; k++)
        {
            Test->Res[6].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[7].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[8].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[9].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[10].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[11].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[12].Val.V_PNLVECT->array[k] = pad_array[k];
            Test->Res[13].Val.V_PNLVECT->array[k] = pad_array[k];
            Test->Res[14].Val.V_PNLVECT->array[k] = pad_array[k];
        }
        median_pl = pl_sample;
    }
else
    {
        current_mean_pl = mean_pl / i;
        if (pl_sample == min_pl)

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    {
        for (k = 0; k <= hedge_number; k++)
        {
            Test->Res[6].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[9].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[12].Val.V_PNLVECT->array[k] = pad_array[k];
        }
    }
    else if (pl_sample == max_pl)
    {
        for (k = 0; k <= hedge_number; k++)
        {
            Test->Res[7].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[10].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[13].Val.V_PNLVECT->array[k] = pad_array[k];
        }
    }
    else if (SQR(pl_sample - current_mean_pl) < SQR(median_pl - current_mean_pl))
    {
        median_pl = pl_sample;
        for (k = 0; k <= hedge_number; k++)
        {
            Test->Res[8].Val.V_PNLVECT->array[k] = stock_array[k];
            Test->Res[11].Val.V_PNLVECT->array[k] = pl_array[k];
            Test->Res[14].Val.V_PNLVECT->array[k] = pad_array[k];
        }
    }
}

} /*i*/

Test->Res[16].Val.V_PNLVECT->array[0] = current_date + n_us * step_hedge;
Test->Res[16].Val.V_PNLVECT->array[1] = initial_stock;

free(stock_array);
free(pl_array);
free(pad_array);

mean_pl = mean_pl / (double)path_number;
var_pl = var_pl / (double)path_number - SQR(mean_pl);

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Test->Res[0].Val.V_DOUBLE = mean_pl;
Test->Res[1].Val.V_DOUBLE = var_pl;
Test->Res[2].Val.V_DOUBLE = min_pl;
Test->Res[3].Val.V_DOUBLE = max_pl;
Test->Res[4].Val.V_DOUBLE = current_date + n_us * step_hedge;

ptMod->T.Val.V_DATE = initial_time;
ptMod->S0.Val.V_PDOUBLE = initial_stock;
(ptOpt->PathDep.Val.V_NUMFUNC_2)->Par[4].Val.V_PDOUBLE = initial_path_dep;

return 0;
}
else return init_mc;
}

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static int TEST(Init)(DynamicTest *Test, Option *Opt)
{
    static int first = 1;
    TYPEOPT *pt = (TYPEOPT *) (Opt->TypeOpt);

    if (first)
    {
        Test->Par[0].Val.V_INT = 0; /* Random Generator */
        Test->Par[1].Val.V_LONG = 1000; /* PathNumber */
        Test->Par[2].Val.V_LONG = 250; /* HedgeNumber */
        Test->Par[3].Val.V_BOOL = 0; /* exerciseType */
        Test->Par[4].Val.V_BOOL = 1; /* Brownian Bridge */
        Test->Par[5].Val.V_PDOUBLE = 90.; /* SpotTarget */
        Test->Par[6].Val.V_DATE = 0.5; /* TimeTarget */

        Test->Res[5].Val.V_PNLVECT = NULL;
        Test->Res[6].Val.V_PNLVECT = NULL;
        Test->Res[7].Val.V_PNLVECT = NULL;
        Test->Res[8].Val.V_PNLVECT = NULL;
        Test->Res[9].Val.V_PNLVECT = NULL;
        Test->Res[10].Val.V_PNLVECT = NULL;
        Test->Res[11].Val.V_PNLVECT = NULL;
        Test->Res[12].Val.V_PNLVECT = NULL;
        Test->Res[13].Val.V_PNLVECT = NULL;
    }
}

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        Test->Res[14].Val.V_PNLVECT = NULL;
        Test->Res[15].Val.V_PNLVECT = NULL;
        Test->Res[16].Val.V_PNLVECT = NULL;

        first = 0;
    }
    if (pt->EuOrAm.Val.V_INT == EURO)
        Test->Par[3].Viter = IRRELEVANT;

    return OK;
}
int CHK_TEST(test)(void *Opt, void *Mod, PricingMethod *Met)
{
    return OK;
}

DynamicTest MOD_OPT(test) =
{
    "bs1d_pad_test",
    { {"RandomGenerator", INT, {100}, ALLOW},
      {"PathNumber", LONG, {100}, ALLOW},
      {"HedgeNumber", LONG, {100}, ALLOW},
      {"exerciseType", BOOL, {100}, ALLOW}, /* 0: european; 1: american "uniform"
      {"BrownianBridge", BOOL, {100}, ALLOW}, /* 0: without brownian bridge; 1: with
      {"SpotTarget", PDOUBLE, {100}, ALLOW},
      {"TimeTarget", DATE, {100}, ALLOW},

      {" ", PREMIA_NULLTYPE, {0}, FORBID}
    },

    CALC(DynamicHedgingSimulator),
    { {"Mean_P&l", DOUBLE, {100}, FORBID},
      {"Var_P&l", DOUBLE, {100}, FORBID},
      {"Min_P&l", DOUBLE, {100}, FORBID},
      {"Max_P&l", DOUBLE, {100}, FORBID},
      {"exerciseTime", DOUBLE, {100}, FORBID},

      {"Time", PNLVECT, {100}, FORBID},
      {"Stockmin", PNLVECT, {0}, FORBID},
      {"Stockmax", PNLVECT, {0}, FORBID},
      {"Stockmean", PNLVECT, {0}, FORBID},

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    {"PLmin", PNLVECT, {0}, FORBID},
    {"PLmax", PNLVECT, {0}, FORBID},
    {"PLmean", PNLVECT, {0}, FORBID},
    {"PADmin", PNLVECT, {0}, FORBID},
    {"PADmax", PNLVECT, {0}, FORBID},
    {"PADmean", PNLVECT, {0}, FORBID},
    {"SpotTarget", PNLVECT, {0}, FORBID},
    {"exerciseTime", PNLVECT, {0}, FORBID},

    {" ", PREMIA_NULLTYPE, {0}, FORBID}
},
CHK_TEST(test),
CHK_ok,
TEST(Init)
};

```