



UPPSALA
UNIVERSITET

**Institutionen för
informationsteknologi**
Lina von Sydow

Besöksadress:
MIC, Polacksbacken
Lägerhyddvägen 2

Postadress:
Box 337
751 05 Uppsala

Telefon:
018-471 2785

Telefax:
018-51 19 25

Hemsida:
<http://www.it.uu.se/katalog/lina>

Epost:
lina@it.uu.se

**Department of
Information Technology**
Lina von Sydow

Visiting address:
MIC, Polacksbacken
Lägerhyddvägen 2

Postal address:
Box 337
SE-751 05 Uppsala
SWEDEN

Telephone:
+46 18-471 2785

Telefax:
+46 18-51 19 25

Web page:
<http://www.it.uu.se/katalog/lina>

Email:
lina@it.uu.se

Assignment 5—American Options

Everybody is going to do this assignment individually.
Read sections 3.6 and 4.6 in *Tools for Computational Finance*.
Also read the article

S. IKONEN AND J. TOIVANEN: Operator Splitting Methods for American Option Pricing, *Applied Mathematics Letters*, Volume 17, Issue 7, 2004, pp. 809–814.

The basic level of the assignment is:

1. Write a 1–2 page summary about numerical solution methods to price American options. The summary shall cover the different methods that you have read about above.

The advanced level of the assignment is:

1. Write a 1–2 page summary about numerical solution methods to price American options. The summary shall cover the different methods that you have read about above.
2. Implement a finite difference solver to price American options. Implement both PSOR and the operator splitting method presented in the article and compare them. Note that in the first line of equation (10) the signs in front of λ should be the opposite when implementing the operator splitting method (it's a typo in the article). Write a report with your obtained results. If you need tutoring regarding this part you can book 10 minutes by sending an email to lina@it.uu.se.

Your assignment should be handed in through the Student Portal no later than October 23. Those who are doing the advanced level shall see Lina von Sydow for ten minutes and present your work and your report orally. This should be done no later than October 26.

Good luck with Assignment 5!