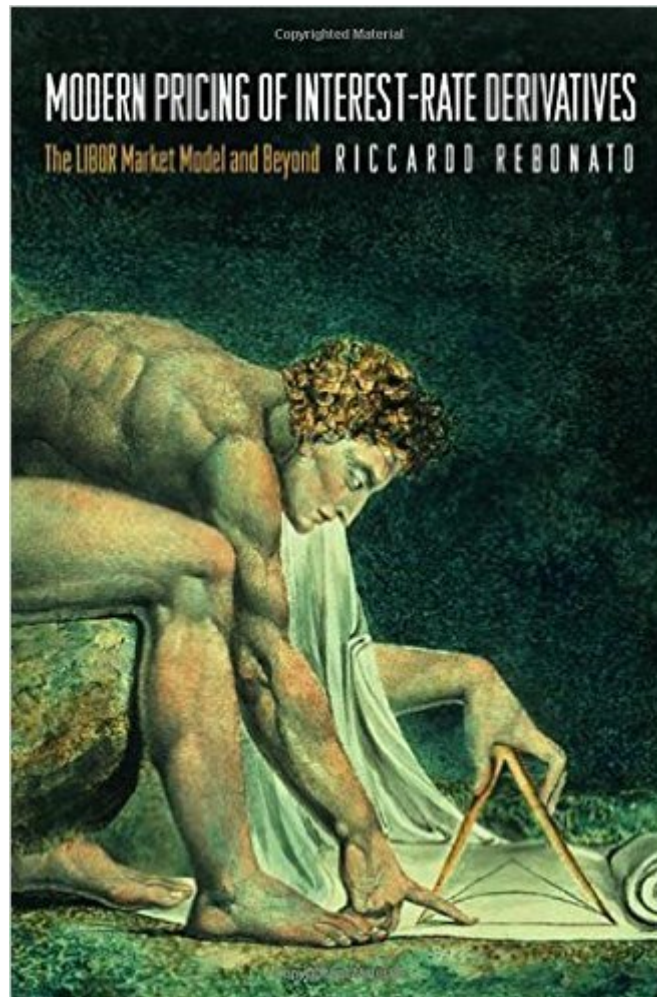


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Modern Pricing Of Interest-Rate Derivatives: The LIBOR Market Model And Beyond



Synopsis

In recent years, interest-rate modeling has developed rapidly in terms of both practice and theory. The academic and practitioners' communities, however, have not always communicated as productively as would have been desirable. As a result, their research programs have often developed with little constructive interference. In this book, Riccardo Rebonato draws on his academic and professional experience, straddling both sides of the divide to bring together and build on what theory and trading have to offer. Rebonato begins by presenting the conceptual foundations for the application of the LIBOR market model to the pricing of interest-rate derivatives. Next he treats in great detail the calibration of this model to market prices, asking how possible and advisable it is to enforce a simultaneous fitting to several market observables. He does so with an eye not only to mathematical feasibility but also to financial justification, while devoting special scrutiny to the implications of market incompleteness. Much of the book concerns an original extension of the LIBOR market model, devised to account for implied volatility smiles. This is done by introducing a stochastic-volatility, displaced-diffusion version of the model. The emphasis again is on the financial justification and on the computational feasibility of the proposed solution to the smile problem. This book is must reading for quantitative researchers in financial houses, sophisticated practitioners in the derivatives area, and students of finance.

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Customer Reviews

My avid reading kept jostling out superb hot ideas from this book. Rebonato carries out a comprehensive survey of the LIBOR market model. He tackles historical background, calibration,

and effective implementation. The later chapters also cover extensions to the LIBOR market model to take account of smile and skew. In particular, there is extensive discussion of the cutting-edge Joshi-Rebonato stochastic-vol, displaced-diffusion LIBOR market model. If you are working on the pricing of exotic interest rate derivatives, this book is a must buy.

This book is hands down the best I have read on the subject. Unlike many others who just list a bunch of definitions, theorems and the like, Rebonato does not go into the mathematical justification of every single point, but rather concentrates on the more important practical aspects like real-life implementation and calibration. Don't get me wrong, you WILL need to understand some serious math, but the book goes beyond that. Being a physicist, it reminds me of Feynman's books which, although they cover the same material as many others, give you that extra valuable insight into how all that math actually relates to what happens in practice. Worth every penny.

It's great as expected.

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