Contents

Fo	reword		V
Int	roduct	ion	xi
1.	Ranc	lom Change of Time	1
	1.1 1.2 1.3	Basic Definitions	1 4
	1.4	$\widehat{X} \circ T$). I. Constructive Examples	15
2.	Integral Representations and Change of Time in Stochastic Integrals		25
	2.1	Integral Representations of Local Martingales in the Strong Sense	25
	2.2	Integral Representations of Local Martingales in a Semi- strong Sense	33
	2.3	Stochastic Integrals Over the Stable Processes and Integral Representations	38
	2.4	Stochastic Integrals with Respect to Stable Processes and Change of Time	38
9	Cam	importingalogy Ragio Nations, Structures, Floments of	

viii Contents

	Ste	pehastic Analysis	41
	3.1	Basic Definitions and Properties	41
	3.2	Canonical Representation. Triplets of Predictable Characteristics	52
	3.3	Stochastic Integrals with Respect to a Brownian Motion. Square-integrable Martingales. and Semimartingales	56
	3.4	Stochastic Differential Equations	73
4.	Stochastic Exponential and Stochastic Logarithm. Cumulant Processes		91
	4.1	Stochastic Exponential and Stochastic Logarithm	91.
	4.2	Fourier Cumulant Processes	96
	$\frac{4.3}{4.4}$	Laplace Cumulant Processes	99
		$X^{\varphi} = \varphi \cdot X \dots \dots$	101
5.	Processes with Independent Increments. Lévy Processes		105
	5.1	Processes with Independent Increments and	
		Semimartingales	105
	5.2	Processes with Stationary Independent Increments (Lévy Processes)	108
	5.3	Some Properties of Sample Paths of Processes with Independent Increments	
	5.4	Some Properties of Sample Paths of Processes with Sta-	113
		tionary Independent Increments (Lévy Processes)	117
6.	Change of Measure. General Facts		121
	6.1	Basic Definitions, Density Process	121
	6.2	Discrete Version of Girsanov's Theorem	123
	6.3	Semimartingale Version of Gitsanov's Theorem	126
	6.4	Esscher's Change of Measure	132
7.	Change of Measure in Models Based on Lévy Processes		135
	7.1	Linear and Exponential Lévy Models under Change of Measure	135
	7.2	On the Criteria of Local Absolute Continuity of Two Measures of Lévy Processes	149

Contents

	7.3	On the Uniqueness of Locally Equivalent Martingale-type Measures for the Exponential Lévy Models	144
	7.4	On the Construction of Martingale Measures with Minimal	
		Entropy in the Exponential Lévy Models	147
ბ.	Change of Time in Semimartingale Models and Models Based on Brownian Motion and Lévy Processes		151
	8.1	Some General Facts about Change of Time for Semimartingale Models	151
	8.2	Change of Time in Brownian Motion. Different Formulations	154
	8.3	Change of Time Given by Subordinators. I. Some Examples	156
	8.4	Change of Time Given by Subordinators. II. Structure of the Triplets of Predictable Characteristics	158
9.	Conditionally Gaussian Distributions and Stochastic Volatility Models for the Discrete-time Case		163
	9.1	Deviation from the Gaussian Property of the Returns of the Prices	163
	9.2	Martingale Approach to the Study of the Returns of the Prices	166
	9.3	Conditionally Gaussian Models. I. Linear (AR. MA. ARMA) and Nonlinear (ARCH, GARCH) Models for Returns	171
	9.4	Conditionally Gaussian Models. II. IG- and GIG-distributions for the Square of Stochastic Volatility and GH-distributions for Returns	175
10.	Mar	tingale Measures in the Stochastic Theory of Arbitrage	195
	10.1	Basic Notions and Summary of Results of the Theory of Arbitrage. I. Discrete Time Models	195
	10.2	Basic Notions and Summary of Results of the Theory of Arbitrage. II. Continuous-Time Models	207
	10.3	Arbitrage in a Model of Buying/Selling Assets with Transaction Costs	215
	10.4	Asymptotic Arbitrage: Some Problems	$\frac{210}{216}$
11.	Cha	nge of Measure in Option Pricing	225

x Contents

	11.1	Overview of the Pricing Formulae for European Options .	225
	11.2	Overview of the Pricing Formulae for American Options .	240
	11.3	Duality and Symmetry of the Semimartingale Models	243
	11.4	Call-Put Duality in Option Pricing. Lévy Models	254
12.	Con	ditionally Brownian and Lévy Processes. Stochastic	
	Vol	atility Models	259
	12.1	From Black Scholes Theory of Pricing of Derivatives to	
		the Implied Volatility, Smile Effect and Stochastic Volatil-	
		ity Models	259
	12.2	Generalized Inverse Gaussian Subordinator and General-	
		ized Hyperbolic Lévy Motion: Two Methods of Construc-	
		tion, Sample Path Properties	270
	12.3	Distributional and Sample-path Properties of the Lévy	
		Processes $L(\mathbb{G}IG)$ and $L(\mathbb{G}H)$	275
	12.4	On Some Others Models of the Dynamics of Prices. Com-	
		parison of the Properties of Different Models	283
Af_{0}	Afterword		289
Bibliography			291
Index			301