

The simulation of binomial option pricing model for estimating single stock options (kos) price at jakarta stock exchange

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Abstrak

ABSTRACT

This thesis has two main objectives; estimating single stock options (KOS) price that will be traded at Jakarta Stock Exchange and analyzing the prices. Binomial methods will be used in estimating single stock options of ASH, BBCA, HMSP, INDF and TLKM. This method has a unique flexibility and simplicity which can be used straightforwardly in the real world because it can evaluate both call and put of almost all kind of options including American and European options. In order to quickly run the computation of option pricing, a computer programming language, Visual Basic, is used.

One of the results is that as the number of time periods increase, the binomial option pricing model seems to converge to the Black-Scholes value. The other is that the difference between Binomial and Black-Scholes results is at the highest for in-the-money put option and at-the-money call option. From all of the five single stock options, KOS price of INDF is the cheapest with a high volatility and big delta meaning a big ratio of change in the price of the stock option to the change in the price of the underlying stock. Bearish trading strategy for options trading in March 2004 is used.

Investors spend less money for option than what they invest for stocks. Furthermore, investors can increase their trading capacity up to ten times by investing in option compared to investing in stock. At a given point of time, if the option is worth more exercised than not exercised, the computed value of the option can be simply replaced with the intrinsic value.