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Contact information:
Thijs van den Berg
Managing Director - SITMO

web: www.sitmo.com
email: thijs@sitmo.com
phone: +31 6 24110061

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Best-of-two, spread option parity

created by **Thijs van den Berg**

$$\text{Payoff relation:}$$
$$(S_1, S_2)^+ = S_1 + (S_2 - S_1, 0)^+$$

$$\text{Option price relation:}$$
$$C_{bo2}(S_1, S_2) = S_1 e^{Y_1 T} + C_{spread}(S_1, S_2)$$

The option on the best of two assets has a value which is the sum of one asset plus the value of an option on the spread between the assets.

Symbol list:

S_1 The first asset
S_2 The second asset
$(a,b)^+$ The maximum of a and b
Y_1 Yield of the first asset
C_{bo2} Best-of-two call
$C_{spread}(S_1,S_2)$ Zero strike spread call (also known as Magrabe's exchange option)