Numerical Solution Of Stochastic Differential Equations With Jumps In Finance Stochastic Modelling And Applied Probability

In financial and actuarial modeling and other areas of application, stochastic differential equations with jumps have been employed to describe the dynamics of various state variables. The numerical solution of such equations is more complex than that of those only driven by Wiener processes, described in Kloeden & Platen:

Numerical Solution of Stochastic Differential Equations (1992). The present monograph builds on the above-mentioned work and provides an introduction to stochastic differential equations with jumps, in both theory and application, emphasizing the numerical methods needed to solve such equations. It presents many new results on higher-order methods for scenario and Monte Carlo simulation, including implicit, predictor corrector, extrapolation, Markov chain and variance reduction methods, stressing the importance of their numerical stability. Furthermore, it includes chapters on exact simulation, estimation and filtering.

Besides serving as a basic text on quantitative methods, it offers ready access to a large number of potential research problems in an area that is widely applicable and rapidly expanding. Finance is chosen as the area of application because much of the recent research on stochastic numerical methods has been driven by challenges in quantitative finance. Moreover, the volume introduces readers to the modern benchmark approach that provides a general framework for modeling in finance and insurance beyond the standard risk-neutral approach. It requires undergraduate background in mathematical or quantitative methods, is accessible

to a broad readership, including those who are only seeking numerical recipes, and includes exercises that help the reader develop a deeper understanding of the underlying mathematics.
The numerical analysis of stochastic differential equations (SDEs) differs significantly from that of ordinary differential equations. This book provides an easily accessible introduction to SDEs, their applications and the numerical methods to solve such equations. From the reviews: "The authors draw upon their own research and experiences in obviously many disciplines... considerable time has obviously been spent writing this in

the simplest language possible."
--ZAMP
Numerical Solution of Stochastic Differential Equations with Jumps in Finance
An Introduction to the Numerical Simulation of Stochastic Di?erential Equations
Stochastic Calculus
Random Number Generation for the Numerical Solution of Stochastic Differential Equations
In this thesis, I will study the qualitative properties of solutions of stochastic differential equations arising in applications by using the numerical methods. It contains two parts. In the first part, I will first review some of

the basic theory of the stochastic calculus and the Ito-Taylor expansion for stochastic differential equations (SDEs). Then I will discuss some numerical schemes that come from the Ito-Taylor expansion including their order of convergence. In the second part, I will use some schemes to solve the stochastic Duffing equation, the stochastic Lorenz equation, the stochastic pendulum equation, and the stochastic equations which model the spread options.
This book is intended to make recent results on the derivation of higher order numerical

schemes for random ordinary differential equations (RODEs) available to a broader readership, and to familiarize readers with RODEs themselves as well as the closely associated theory of random dynamical systems. In addition, it demonstrates how RODEs are being used in the biological sciences, where non-Gaussian and bounded noise are often more realistic than the Gaussian white noise in stochastic differential equations (SODEs). RODEs are used in many important applications and play a fundamental role in the theory of random dynamical systems.

They can be analyzed pathwise with deterministic calculus, but require further treatment beyond that of classical ODE theory due to the lack of smoothness in their time variable. Although classical numerical schemes for ODEs can be used pathwise for RODEs, they rarely attain their traditional order since the solutions of RODEs do not have sufficient smoothness to have Taylor expansions in the usual sense. However, Taylor-like expansions can be derived for RODEs using an iterated application of the appropriate chain rule in integral form, and represent the starting point for *the systematic derivation of consistent higher order numerical schemes for RODEs. The book is directed at a wide range of readers in applied and computational mathematics and related areas as well as readers who are interested in the applications of mathematical models involving random effects, in particular in the biological sciences.The level of this book is suitable for graduate students in applied mathematics and related areas, computational sciences and systems biology. A basic knowledge of ordinary differential equations and numerical analysis is required.*

Numerical Methods for Stochastic Processes

Simulation and Inference for Stochastic Differential Equations

Numerical Integration of Stochastic Differential Equations

Random Ordinary Differential Equations and Their Numerical Solution

Stochastic Numerical Methods introduces at Master level the numerical methods that use probability or stochastic concepts to analyze random processes. The book aims at being rather general and is addressed at students of natural sciences (Physics, Chemistry, Mathematics, Biology, etc.) and Engineering, but also social sciences

(Economy, Sociology, etc.) where some of the techniques have been used recently to numerically simulate different agent-based models. Examples included in the book range from phase-transitions and critical phenomena, including details of data analysis (extraction of critical exponents, finite-size effects, etc.), to population dynamics, interfacial growth, chemical reactions, etc. Program listings are integrated in the discussion of numerical algorithms to facilitate their understanding. From the contents: Review of Probability Concepts Monte Carlo Integration Generation of Uniform and Non-uniform Random Numbers: Non-correlated Values Dynamical

Methods Applications to Statistical Mechanics Introduction to Stochastic Processes Numerical Simulation of Ordinary and Partial Stochastic Differential Equations Introduction to Master Equations Numerical Simulations of Master Equations Hybrid Monte Carlo Generation of n-Dimensional Correlated Gaussian Variables Collective Algorithms for Spin Systems Histogram Extrapolation Multicanonical Simulations

This book provides a lively and accessible introduction to the numerical solution of stochastic differential equations with the aim of making this subject available to the widest possible readership. It presents an outline of the underlying convergence and stability theory while avoiding technical details. Key ideas are illustrated with numerous computational examples and computer code is listed at the end of each chapter. The authors include 150 exercises, with solutions available online, and 40 programming tasks. Although introductory, the book covers a range of modern research topics, including It ô versus Stratonovich calculus, implicit methods, stability theory, nonconvergence on nonlinear problems, multilevel Monte Carlo, approximation of double stochastic integrals, and tau leaping for chemical and biochemical reaction networks.

An Introduction to the Numerical Simulation of Stochastic Differential Equations is appropriate for undergraduates and postgraduates in mathematics, engineering, physics, chemistry, finance, and related disciplines, as well as researchers in these areas. The material assumes only a competence in algebra and calculus at the level reached by a typical first-year undergraduate mathematics class, and prerequisites are kept to a minimum. Some familiarity with basic concepts from numerical analysis and probability is also desirable but not necessary.

Stochastic Numerics for Mathematical Physics

Runge-Kutta Methods for the

Numerical Solution of Stochastic Differential Equations
Numerical Solutions of Stochastic Differential Equations
An Introduction to Stochastic Differential Equations

This book is devoted to mean-square and weak approximations of solutions of stochastic differential equations (SDE). These approximations represent two fundamental aspects in the contemporary theory of SDE. Firstly, the construction of numerical methods for such systems is important as the solutions provided serve as characteristics for a number of mathematical physics problems.

Secondly, the employment of probability representations together with a Monte Carlo method allows us to reduce the solution of complex multidimensional problems of mathematical physics to the integration of stochastic equations. Along with a general theory of numerical integrations of such systems, both in the mean-square and the weak sense, a number of concrete and sufficiently constructive numerical schemes are considered. Various applications and particularly the approximate calculation of Wiener integrals are also dealt with. This book is of interest to graduate students in the mathematical, physical and engineering sciences, and to specialists whose work involves differential equations, mathematical physics, numerical mathematics, the theory of random processes, estimation and control theory.

The theory of two-person, zero-sum differential games started at the be ginning of the 1960s with the works of R. Isaacs in the United States and L.S. Pontryagin and his school in the former Soviet Union. Isaacs based his work on the Dynamic Programming method. He analyzed many special cases of the partial differential equation now called Hamilton Jacobi-Isaacs-briefiy HJI-trying to solve them explicitly and synthe sizing optimal feedbacks from the solution. He began a study of singular surfaces that was continued mainly by J. Breakwell and P. Bernhard and led to the explicit solution of some low-dimensional but highly nontriv ial games; a recent survey of this theory can be found in the book by J. Lewin entitled Differential Games (Springer, 1994). Since the early stages of the theory, several authors worked on making the notion of value of a differential game precise and providing a rigorous derivation of the HJI equation, which does not have a classical solution in most cases; we mention here the works of W. Fleming, A. Friedman (see his book, Differential Games, Wiley, 1971), P.P. Varaiya, E. Roxin, R.J. Elliott and N.J. Kalton, N.N. Krasovskii, and A.I. Subbotin (see their book Po sitional Differential Games, Nauka, 1974, and Springer, 1988), and L.D. Berkovitz. A major breakthrough was the introduction in the 1980s of two new notions of generalized solution for Hamilton-Jacobi equations, namely, viscosity

solutions, by M.G. Crandall and P.-L.
With R Examples
N-Dimension numerical solution of Stochastic Differential Equations
Contributions to Numerical Solution of Stochastic Differential Equations
A Brief Analysis of Certain Numerical Methods Used to Solve Stochastic Differential Equations
This paper introduces time-continuous numerical schemes to simulate stochastic differential equations (SDEs) arising in mathematical finance, population dynamics, chemical

kinetics, epidemiology, biophysics, and polymeric fluids. These schemes are obtained by spatially discretizing the Kolmogorov equation associated with the SDE in such a way that the resulting semi-discrete equation generates a Markov jump process that can be realized exactly using a Monte Carlo method. In this construction the jump size of the approximation can be bounded uniformly in space, which often guarantees that the schemes are numerically stable for both finite and long time simulation of SDEs.

This book provides a

comprehensive introduction to the theory of stochastic calculus and some of its applications. It is the only textbook on the subject to include more than two hundred exercises with complete solutions. After explaining the basic elements of probability, the author introduces more advanced topics such as Brownian motion, martingales and Markov processes. The core of the book covers stochastic calculus, including stochastic differential equations, the relationship to partial differential equations, numerical methods and simulation, as well as *applications of stochastic processes to finance. The final chapter provides detailed solutions to all exercises, in some cases presenting various solution techniques together with a discussion of advantages and drawbacks of the methods used. Stochastic Calculus will be particularly useful to advanced undergraduate and graduate students wishing to acquire a solid understanding of the subject through the theory and exercises. Including full mathematical statements and rigorous proofs, this book is completely self-contained and suitable for lecture courses as* *well as self-study.*

Numerical Solution of Stochastic Differential Equations and Their Applications in Communications

An Introduction for Students and Scientists

An Introduction to Computational Stochastic PDEs

An Introduction Through Theory and Exercises

Gives greater rigor to numerical treatments of stochastic models. Contains Monte Carlo and quasi-Monte Carlo techniques, simulation of major stochastic procedures, deterministic methods adapted to Markovian problems and special problems related to stochastic integral and differential equations. Simulation methods are given throughout the text as well as numerous exercises.

This book gives a comprehensive introduction to numerical methods and analysis of stochastic processes, random fields and stochastic differential equations, and offers graduate students and researchers powerful tools for understanding uncertainty quantification for risk analysis. Coverage includes traditional stochastic ODEs with white noise forcing, strong and weak approximation, and the multi-level Monte Carlo method. Later chapters apply the theory of random fields to the numerical solution of elliptic PDEs with correlated random data, discuss the Monte Carlo method, and introduce stochastic Galerkin finite-element methods. Finally, stochastic parabolic PDEs are developed. Assuming little previous exposure to probability and statistics, theory is developed in tandem with state-of-the-art computational methods through worked examples, exercises, theorems and proofs. The set of MATLAB codes included (and downloadable) allows readers to perform computations themselves and solve the test problems discussed. Practical examples are drawn from finance, mathematical biology, neuroscience, fluid flow modelling and materials science.

Stochastic and Differential Games

Stochastic Numerical Methods

Numerical Solution of Stochastic Differential Equations

Numerical Analysis of Systems of Ordinary and Stochastic Differential Equations

In this dissertation, we

consider the problem of simulation of stochastic differential equations driven by Brownian motions or the general Lévy processes. There are two types of convergence for a numerical solution of a stochastic differential equation, the strong convergence and the weak convergence. We first introduce the strong convergence of the tamed Euler-Maruyama scheme under non-globally Lipschitz conditions, which allow the polynomial growth for the drift and diffusion coefficients.

Then we prove a new weak convergence theorem given that the drift and diffusion coefficients of the stochastic differential equation are only twice continuously differentiable with bounded derivatives up to order 2 and the test function are third order continuously differentiable with all of its derivatives up to order 3 satisfying a polynomial growth condition. We also introduce the multilevel Monte Carlo method, which is efficient in reducing

the total computational complexity of computing the expectation of a functional of the solution of a stochastic differential equation. This method combines the three sides of the simulation of stochastic differential equations: the strong convergence, the weak convergence and the Monte Carlo method. At last, a recent progress of the strong convergence of the numerical solutions of stochastic differential equations driven by Lévy processes under non-globally Lipschitz

conditions is also presented.
This book covers numerical methods for stochastic partial differential equations with white noise using the framework of Wong-Zakai approximation. The book begins with some motivational and background material in the introductory chapters and is divided into three parts. Part I covers numerical stochastic ordinary differential equations. Here the authors start with numerical methods for SDEs with delay using the Wong-

Zakai approximation and finite difference in time. Part II covers temporal white noise. Here the authors consider SPDEs as PDEs driven by white noise, where discretization of white noise (Brownian motion) leads to PDEs with smooth noise, which can then be treated by numerical methods for PDEs. In this part, recursive algorithms based on Wiener chaos expansion and stochastic collocation methods are presented for linear stochastic advection-diffusion-reaction equations. In addition, stochastic Euler equations are exploited as an application of stochastic collocation methods, where a numerical comparison with other integration methods in random space is made. Part III covers spatial white noise. Here the authors discuss numerical methods for nonlinear elliptic equations as well as other equations with additive noise. Numerical methods for SPDEs with multiplicative noise are also discussed using the Wiener chaos expansion method. In addition, some SPDEs driven by non-Gaussian white noise are discussed and some model reduction methods (based on Wick-Malliavin calculus) are presented for generalized polynomial chaos expansion methods. Powerful techniques are provided for solving stochastic partial differential equations. This book can be considered as self-contained. Necessary background knowledge is presented in the appendices. Basic knowledge of probability

theory and stochastic calculus is presented in Appendix A. In Appendix B some semi-analytical methods for SPDEs are presented. In Appendix C an introduction to Gauss quadrature is provided. In Appendix D, all the conclusions which are needed for proofs are presented, and in Appendix E a method to compute the convergence rate empirically is included. In addition, the authors provide a thorough review of the topics, both theoretical and computational exercises in

the book with practical discussion of the effectiveness of the methods. Supporting Matlab files are made available to help illustrate some of the concepts further. Bibliographic notes are included at the end of each chapter. This book serves as a reference for graduate students and researchers in the mathematical sciences who would like to understand state-of-the-art numerical methods for stochastic partial differential equations with white noise.

Continuous-Time Random Walks for the Numerical Solution of Stochastic Differential Equations

Qiming Li

An Introduction to the Numerical Simulation of Stochastic Differential Equations

Step Size Control in the Numerical Solution of Stochastic Differential Equations

Stochastic differential equations are differential equations whose solutions are stochastic processes. They exhibit appealing mathematical properties that are useful in modeling uncertainties and noisy phenomena in many disciplines. This book is motivated by applications of stochastic differential equations in target tracking and medical technology and, in particular, their use in methodologies such as filtering, smoothing, parameter estimation, and machine learning. It builds an intuitive hands-on understanding of what stochastic differential equations are all about, but also covers the essentials of It calculus, the central theorems in the field, and such approximation schemes as stochastic Runge-Kutta. Greater emphasis is given to solution methods than to analysis of theoretical properties of the equations. The book's practical approach assumes only prior understanding of ordinary differential equations. The numerous worked examples and end-of-chapter exercises

include application-driven derivations and computational assignments. MATLAB/Octave source code is available for download, promoting hands-on work with the methods.
These notes provide a concise introduction to stochastic differential equations and their application to the study of financial markets and as a basis for modeling diverse physical phenomena. They are accessible to non-specialists and make a valuable addition to the collection of texts on the topic. --Srinivasa Varadhan, New York University This is a handy and very useful text for studying stochastic differential equations. There is enough mathematical detail so that the reader can benefit from this introduction with only a basic background in

mathematical analysis and probability. --George Papanicolaou, Stanford University This book covers the most important elementary facts regarding stochastic differential equations; it also describes some of the applications to partial differential equations, optimal stopping, and options pricing. The book's style is intuitive rather than formal, and emphasis is made on clarity. This book will be very helpful to starting graduate students and strong undergraduates as well as to others who want to gain knowledge of stochastic differential equations. I recommend this book enthusiastically. --Alexander Lipton, Mathematical Finance Executive, Bank of America Merrill Lynch This short book provides a quick, but very readable introduction to stochastic differential equations, that is, to differential equations subject to additive ``white noise'' and related random disturbances. The exposition is concise and strongly focused upon the interplay between probabilistic intuition and mathematical rigor. Topics include a quick survey of measure theoretic probability theory, followed by an introduction to Brownian motion and the Ito stochastic calculus, and finally the theory of stochastic differential equations. The text also includes applications to partial differential equations, optimal stopping problems and options pricing. This book can be used as a text for senior undergraduates or beginning graduate students in mathematics, applied mathematics, physics, financial mathematics, etc., who want to learn the basics of stochastic differential equations. The reader is assumed to be fairly familiar with measure theoretic mathematical analysis, but is not assumed to have any particular knowledge of probability theory (which is rapidly developed in Chapter 2 of the book).

Theory and Numerical Methods

Discrete Time Approximation of

Numerical Solution of Stochastic Differential Equation in Finance

Stability Issues in the Numerical Solution of Stochastic Differential Equations

Numerical Methods for the Solution of Stochastic Differential Equations

This book covers a highly relevant and timely topic

that is of wide interest, especially in finance, engineering and computational biology. The introductory material on simulation and stochastic differential equation is very accessible and will prove popular with many readers. While there are several recent texts available that cover stochastic differential equations, the concentration here on inference makes this book stand out. No other direct competitors are known to date. With an emphasis on the practical implementation of the *simulation and estimation methods presented, the text will be useful to practitioners and students with minimal mathematical background. What's more, because of the many R programs, the information here is appropriate for many mathematically well educated practitioners, too. This book provides an easily accessible, computationally-oriented introduction into the numerical solution of stochastic differential equations using computer experiments. It develops in the reader an ability to apply*

numerical methods solving stochastic differential equations. It also creates an intuitive understanding of the necessary theoretical background. Software containing programs for over 100 problems is available online.
Numerical Methods for Stochastic Partial Differential Equations with White Noise
Numerical Solution of Stochastic Differential Equation in Finance
Numerical Solution of SDE Through Computer Experiments

Applied Stochastic Differential Equations