Preface

Origin of This Text

This text has evolved from mathematics courses in the Master of Science in Computational Finance (MSCF) program at Carnegie Mellon University. The content of this book has been used successfully with students whose mathematics background consists of calculus and calculus-based probability. The text gives precise statements of results, plausibility arguments, and even some proofs, but more importantly, intuitive explanations developed and refined through classroom experience with this material are provided. Exercises conclude every chapter. Some of these extend the theory and others are drawn from practical problems in quantitative finance.

The first three chapters of Volume I have been used in a half-semester course in the MSCF program. The full Volume I has been used in a full-semester course in the Carnegie Mellon Bachelor’s program in Computational Finance. Volume II was developed to support three half-semester courses in the MSCF program.

Dedication

Since its inception in 1994, the Carnegie Mellon Master’s program in Computational Finance has graduated hundreds of students. These people, who have come from a variety of educational and professional backgrounds, have been a joy to teach. They have been eager to learn, asking questions that stimulated thinking, working hard to understand the material both theoretically and practically, and often requesting the inclusion of additional topics. Many came from the finance industry, and were gracious in sharing their knowledge in ways that enhanced the classroom experience for all.

This text and my own store of knowledge have benefited greatly from interactions with the MSCF students, and I continue to learn from the MSCF
alumni. I take this opportunity to express gratitude to these students and former students by dedicating this work to them.

Acknowledgments

Conversations with several people, including my colleagues David Heath and Dmitry Kramkov, have influenced this text. Łukasz Kruk read much of the manuscript and provided numerous comments and corrections. Other students and faculty have pointed out errors in and suggested improvements of earlier drafts of this work. Some of these are Jonathan Anderson, Bogdan Doytchinov, Steven Gillispie, Sean Jones, Anatoli Karolik, Andrzej Krause, Petr Luksan, Sergey Myagchilov, Nicki Rasmussen, Isaac Sonin, Massimo Tassan-Solet, David Whitaker and Uwe Wystup. In some cases, users of these earlier drafts have suggested exercises or examples, and their contributions are acknowledged at appropriate points in the text. To all those who aided in the development of this text, I am most grateful.

During the creation of this text, the author was partially supported by the National Science Foundation under grants DMS-9802464, DMS-0103814, and DMS-0139911. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the National Science Foundation.

Pittsburgh, Pennsylvania, USA

Steven E. Shreve

December 2003
Stochastic Calculus for Finance I
The Binomial Asset Pricing Model
Shreve, S.
2004, XV, 187 p., Hardcover