

"Dividend Derivatives"

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Abstract

Dividend derivatives are not simply a by-product of equity derivatives.

They constitute a distinct growing market and an entire suite of dividend derivatives are offered to investors. In this paper we look at two potential models for equity index dividends and discuss their theoretical and practical merits. The main results emerge from a downward jump-diffusion model with beta distributed jumps and a stochastic logistic diffusion model, both providing an elegant solution to the particular dynamics observed for dividends and cum-dividends, respectively, in the market. Calibration results are discussed with market data on Dow Jones Euro STOXX50r dividend index for futures and European call and put options.