GUANGYU FU, Scotiabank
Managing Volatility Smile in the Option Market: SABR, Local Volatility and Other Models

Implied volatility smile patterns are commonly seen in option products. In this talk, we will review the evolution of mathematical models to manage these smiles. SABR model on interest rate products and local volatility model on equity products will be specifically introduced. Practical issues and some rule-of-thumb solutions adopted by the industry will be discussed as well.