


# Methods of Mathematical Finance (Stochastic Modelling and Applied Probability)

*By Ioannis Karatzas, Steven Shreve*

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This sequel to Brownian Motion and Stochastic Calculus by the same authors develops contingent claim pricing and optimal consumption/investment in both complete and incomplete markets, within the context of Brownian-motion-driven asset prices. The latter topic is extended to a study of equilibrium, providing conditions for existence and uniqueness of market prices which support trading by several heterogeneous agents. Although much of the incomplete-market material is available in research papers, these topics are treated for the first time in a unified manner. The book contains an extensive set of references and notes describing the field, including topics not treated in the book. This book will be of interest to researchers wishing to see advanced mathematics applied to finance. The material on optimal consumption and investment, leading to equilibrium, is addressed to the theoretical finance community. The chapters on contingent claim valuation present techniques of practical importance, especially for pricing exotic options.

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## Editorial Review

Review

"The book under review deals with the applications of stochastic analysis and optimal control theory to various problems arising in modern mathematical finance. In contrast to several other books on mathematical finance which appeared in recent years, this book deals not only with the so-called partial equilibrium approach (i.e., the arbitrage pricing of European and American contingent claims) but also with the general equilibrium approach (i.e., with the equilibrium specification of prices of primary assets). A major part of the book is devoted to solving valuation and portfolio optimization problems under market imperfections, such as market incompleteness and portfolio constraints. ... Undoubtedly, the book constitutes a valuable research-level text which should be consulted by anyone interested in the area. Unlike other currently available monographs, it provides an exhaustive and up-to-date treatment of portfolio optimization and valuation problems under constraints. It is also quite suitable as a textbook for an advanced course on mathematical finance." (Marek RutKowski, Mathematical Reviews)

From the Publisher
Written by two of the best-known researchers in mathematical finance, this book will appeal to theorists and practitioners in this very active research area. It includes much material that has not appeared before in book-form. This book is a sequel to their GTM volume. The book closest in level is Musiela/Rutowski. According to Shreve, M/R is 100% applied while K/S has a mix of practical and theoretical resutls. M/R is more comprehensive. K/S concentrates on their research interests and includes more original work.

From the Back Cover

This monograph is a sequel to *Brownian Motion and Stochastic Calculus* by the same authors. Within the context of Brownian-motion- driven asset prices, it develops contingent claim pricing and optimal consumption/investment in both complete and incomplete markets. The latter topic is extended to a study of equilibrium, providing conditions for the existence and uniqueness of market prices which support trading by several heterogeneous agents. Although much of the incomplete-market material is available in research papers, these topics are treated for the first time in a unified manner. The book contains an extensive set of references and notes describing the field, including topics not treated in the text.

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Also available by Ioannis Karatzas and Steven E. Shreve, *Brownian Motion and Stochastic Calculus*, Second Edition, Springer-Verlag New York, Inc., 1991, 470 pp., ISBN 0-387- 97655-8.

## Users Review

**From reader reviews:**

**Celeste Silver:**

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