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Modeling and Pricing of Covariance and Correlation Swaps for Financial Markets with Semi-Markov Volatilities

Giovanni Salvi, Anatoliy V. Swishchuk

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In this paper, we model financial markets with semi-Markov volatilities and price covarinace and correlation swaps for this markets. Numerical evaluations of vari- nace, volatility, covarinace and correlations swaps with semi-Markov volatility are presented as well. The novelty of the paper lies in pricing of volatility swaps in closed form, and pricing of covariance and correlation swaps in a market with two risky assets.

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