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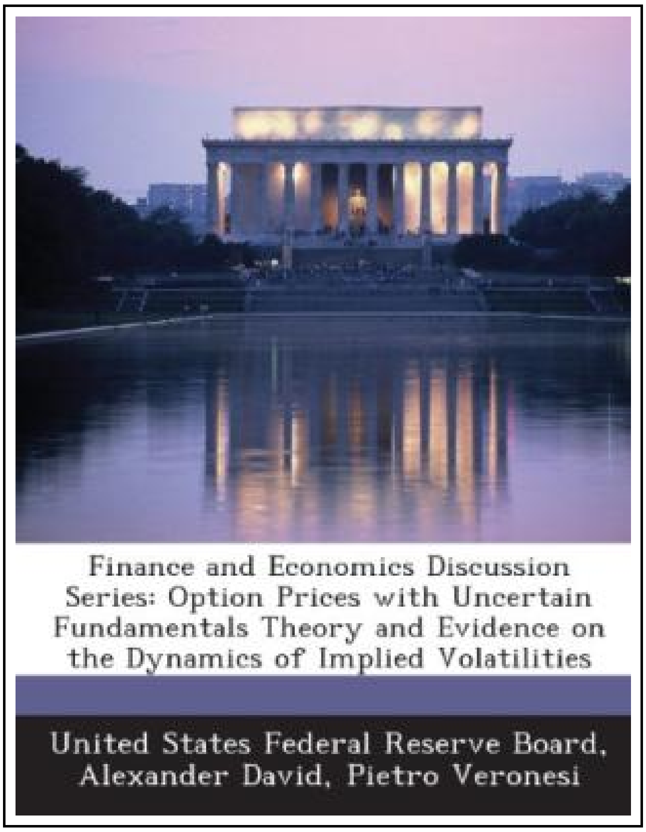

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Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.In an incomplete information model, investors uncertainty about the underlying drift rate of a firm s fundamentals affects option prices through (i) endogenous and belief-dependent stochastic volatility, (ii) stochastic covariance between returns and volatility, and (iii) a market price of belief risk. For the special case where the drift takes only two values, we provide an option pricing formula using Fourier Transforms. The model calibrated to 1960-1998 SP 500 real earnings growth shows that investors uncertainty explains intertemporal variation in the slope and curvature of implied volatility curves as well as the conditional moments of the state-return density obtained from option data. The calibrated model generates hedging violations of one-factor markov and deterministic volatility function models with roughly empirical frequencies.

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