
Local volatility models enhanced with jumps.

Hamza Guennoun^{*1} and Pierre Henry-Labordère²

¹Société Générale – soci grale – France

²Société Générale – Société Générale - CIB – France

Abstract

In this paper, we study the calibration to market call prices $C^{\{\text{mkt}\}}(t, K)$ of a local volatility model enhanced with jumps. Instead of giving an exact calibration condition on the local volatility, we introduce an approximate process $S_{t^{\epsilon}}$ *satisfying a well-defined nonlinear McKean SDE driven by a Cox process, such that*

*Speaker