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Bibliogov, United States, 2013. Paperback. Condition: New. Language: English . Brand New Book \*\*\*\*\* Print on Demand \*\*\*\*\*. This paper evaluates how useful the information contained in options prices is for predicting future price movements of the underlying assets. We develop an improved semiparametric methodology for estimating risk-neutral probability density functions (PDFs), which allows for skewness and intertemporal variation in higher moments. We use this technique to estimate a daily time series of risk-neutral PDFs spanning the late 1980 s through 1999, for SP 500 futures, U.S. dollar/Japanese yen futures and U.S. dollar/deutsche mark futures, using options on these futures. For the foreign exchange futures, we find little discernable additional information contained in the estimated PDFs beyond the information derived from the Black-Scholes model, a fully parametric specification. For SP 500 futures, we find that the risk-neutral distribution implied by the volatility smile better fits the realized returns than the Black-Scholes model, although this better overall fit is not exhibited in the second and third moments.



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