

1046-60-1107

Chris Rogers and **Luitgard Veraart*** (veraart@stoch.uni-karlsruhe.de), Institute for Stochastics, University of Karlsruhe, Kaiserstr. 89, 76133 Karlsruhe, Germany. *A Stochastic Volatility Alternative to SABR.*

We present two new stochastic-volatility models in which option prices for European plain vanilla options have closed-form expressions. The models are motivated by the well-known SABR model but use modified dynamics of the underlying asset. The asset process is modelled as a product of functions of two independent stochastic processes: a Cox-Ingersoll-Ross process and a geometric Brownian motion. An application of the model to options written on foreign currencies is studied. (Received September 14, 2008)