

BLACK-SCHOLES OPTION PRICING FORMULA

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Here an introduction to Brownian motions is given. Stochastic calculus and Itos lemma are described which is used in the study and description of Black-Scholes option pricing formula.

This dissertation has three chapters. Chapter one describes Brownian motion. The sketch of the results and definitions needed about stochastic calculus to describe Itos lemma is given in chapter two. Chapter three gives the key assumptions underlying the Black-Scholes model.