

UNIVERSITI TEKNOLOGI MARA

**EVALUATION OF BINOMIAL
MODEL IN PRICING WARRANTS
WITH HISTORICAL AND IMPLIED
VOLATILITY**

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STUDENT'S DECLARATION

I certify that this report and the research to which it refers are the product of my own work and that any ideas or quotation from the work of other people, published or otherwise are fully acknowledge in accordance with the standard referring practices of the discipline.



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ABSTRACT

The holder is only entitled to directly purchase the common share obligation from the companies on that date by means of a warrant. There are several types of warrants, and each warrant has its reasons to invest. A warrant may offer benefits to investors who know the market and the company. In addition to the Malaysian stock market, warrants are very popular. The warrant has become popular among Malaysian investors today as it provides them with exposure to the underlying share at a fraction of the price. The reason why warrants have been traded is that the gearing effect that warrants can give investors the potential for higher percentage returns than if investors had purchased the shares directly, and the warrants also have a difference between other leverage that warrants risk limited to the initial payment, which means that investors can increase exposure while limiting risk. This study aims to use the binomial model for price call warrants and to compare it with historical and implied volatility. The result of the Mean Square Error (MSE) is be compared between historical and implied volatility. The binomial model in this study is the method used to calculate the price of the call warrant. The data to be used for this study is from DataStream, which can be accessed from the UiTM library. The call warrant pricing data for the binomial model has been calculated using Microsoft Excel. This study's result is that the price of the warrant for historical and implied volatility shows the same pattern as the small price difference. The results show that the implied volatility is better than the historical volatility.

Keywords : Pricing Warrants, Binomial Model, Historical Volatility, Implied Volatility, and MSE

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