ABSTRACT

PRICING PERFORMANCE LEVERAGE UPSIDE SECURITIES

Performance Leveraged Upside Securities (PLUS) represent a new form of equity-linked structured notes. PLUS have the following characteristics: If the underlying asset is quoted within a certain price range at maturity, the investors receive two times the percentage change in the value of the underlying asset, subject to a maximum payment at maturity. In this thesis, a general pricing model is proposed for the PLUS. The price of a specific PLUS, with a ticker symbol PLM, is estimated for each trading day in a one-and-half-year sample period. An empirical test suggests that the average pricing error between estimated prices and actual market prices is statistically different from zero. From sensitivity analysis, we conclude that the model price is very sensitive to the volatility of the S&P 500 Index, but it is not sensitive to changes in its dividend yield or to changes in the Stripped Treasury note annual yield.

Haibo Wang

May 2006