

Secondary Market:
Fair Value Pricing for Structured Products

Master Thesis

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Executive Summary

Because of the complexity of structured products, it is hard to judge whether a market price of a product is fair or not. As structured products are constructs that consist of other financial products, a fair value price for structured products is calculable by pricing the various construction parts. A variety of structured products were replicated and fair value priced with the help of the bond pricing formula and the Black-Scholes option pricing model. Fundamentals for this action are the knowledge for the fair value pricing of the construction parts as well as the impact of various factors such as the underlying asset price, the volatility and the interest rate on the price of the product. The results show that such a fair value method can approximate the market prices and is highly influenced by the election of the different input factors respective to the estimation of these different input factors.