Financial Mathematics

Pricing and Hedging of Default-sensitive Contingent Claims

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We study the problem of pricing default-sensitive contingent claims for an informed investor who observes the stock price process as well as possesses additional information containing the knowledge of the default time from the very beginning. Under the assumption that the underlying default-free market is complete for a regular investor, i.e. an agent who observes only the stock price, and that the defaultable market is arbitrage-free for the informed investor, we show that any default-sensitive contingent claim has a unique price for the informed investor. Moreover, this price can be expressed in terms of prices of default-free contingent claims for the regular investor.