

# Contents

- 1 *Introduction*
  - American Barrier Options
    - Approximate the conditional value

*Definition*

American barrier options are modified forms of standard call or put American options that characterized by strike price, barrier level and a cash rebate associated to crossing the barrier level.

The four main types of barrier options are:

- Down and In
- Down and Out
- Up and In
- Up and Out

- Approximate  $C_j(S_j)$  using  $\{e_1(S_j), e_2(S_j), \dots, e_m(S_m)\}$ , the first  $m$  basis function:

$$C_j(S_j) = \sum_{i=1}^m \alpha_i(S_j) e_i(S_j) = \alpha^m(S_j) \cdot e^m(S_j)$$

$$\alpha^m(S_j) = (\alpha_1(S_j), \alpha_2(S_j), \dots, \alpha_m(S_j)) \text{ and } e^m = (e_1, e_2, \dots, e_m).$$