

COMPATIBILITY BETWEEN PRICES AND RISKS

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We will deal with linear pricing rules and risk measures (including deviations and coherent or expectation bounded risk measures), and we will introduce two kinds of compatibility between prices and risks. Prices and risks are not (strongly) compatible if returns tend to infinite as risks (remain constant) tend to plus infinite.

We will show that the lack of (strong) compatibility arises for very important pricing models (Black and Scholes, Heston, etc.) and risk measures (absolute deviation, value at risk, expected shortfall, etc.) and will give build practical portfolios that should be able to make use of this fact in practice.