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Pricing real estate index options under stochastic interest rates

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Highlights:

We price real estate index options under stochastic interest rates based on a partial differential equation.

The non-tradable and the mean-reverting characteristics of the real estate index are considered.

We propose a modified finite difference method that adopts the non-uniform grids.

The effects of stochastic interest rates on real estate index options depend on whether the term structure of interest rates is rising or falling.

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