

# Pricing of Equities with Embedded Optional Clauses : Study of PPR's proposal on Gucci

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## Abstract

When a financial asset is attached with an option whose underlying is the financial asset itself, both the price and its dynamics are modified. This article is based on a concrete example that occurred in September 2001 when PPR offered Gucci's shareholders a guarantee on the price of the Gucci shares in 2 years and a half. We have modeled the mechanism of return to equilibrium after this offer, and we could then predict the price change and the deformation of the local volatility function of the Gucci shares. The observed shift on the price gives information about the implied default probability of PPR relative to Gucci's shareholders.

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