ABSTRACT

Option is a derivative securities which is traded the rights of an assets at a certain price and specified dates. Therefore pricing the option price is not an easy matter. Black & scholes models is often to use for pricing European option. Pricing European option price with Black & scholes models it is inadequate to count the option price when in out-of-the money condition. In a while pricing European option price under two stochastic volatility offers more consistent option price. Subtitude the two stochastic volatility processes to the Black & scholes differential equation. The test result perform that two stochastic volatility processes is better than one stochastic volatility processes. Result MSE for two stochastic volatility processes is 0,4478 but MSE for one stochastic volatility processes is 0,4726 that's shows us that the difference in pricing European option between these models is not significant yet.

Keywords : Option, European option, Two stochastic volatility.