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Juan Dong* (j.claire.dong@gmail.com), 2 Edgewood Rise, NW, Calgary, Alberta T3A 2T7, Canada, and **Deniz Sezer**. *Non-diversifiable Risk and Corporate Bonds Pricing*.

We have devised a methodology for pricing corporate bonds in an incomplete market, based on a notion called "non-diversifiable risk premium" and the concept of an optimal replicating portfolio. The difference between the value of the optimal portfolio and the contingent claim is interpreted as non-diversifiable risk. We model the price of the claim by incorporating the price of the optimal replicating portfolio and a certain reduction due to the lack of complete diversification. The optimality criterion is the expected squared error, and the minimization problem can be formulated as a stochastic optimal control problem, which can be solved by dynamic programming. (Received February 08, 2014)