Contents

Introduction vii

Chapter 1. Optimization Problems 1

1.1. Portfolio optimization problem 2
1.1.1. Portfolio value 2
1.1.2. Optimization problem 5
1.1.3. Examples of utility functions 7
1.2. Duality approach 11
1.2.1. Change of probability measures 13
1.2.2. Dual optimization problem 13
1.2.3. Examples 18
1.3. Dynamic programming principle 23
1.4. Several explicit examples 28
1.4.1. Brownian setting 28
1.4.2. Brownian setting with additive utility weight 33
1.5. Brownian-Poisson filtration with general utility weights 39
1.5.1. Logarithmic utility 42

Chapter 2. Enlargement of Filtration 45

2.1. Conditional law and density hypothesis 46
2.2. Initial enlargement of filtration 51
2.2.1. Martingales of the enlarged filtration 52
2.2.2. Example of a Brownian-Poisson filtration and information drift 57
2.2.3. Noisy initial enlargements 58
2.3. Progressive enlargement of filtration 60
2.3.1. Conditional expectation 62

2.3.2. Right-continuity of the enlarged filtration 64
2.3.3. Martingale characterization 66
2.3.4. Dynamic enlargement with a process 69

Chapter 3. Portfolio Optimization with Credit Risk 71

3.1. Model setup 73
3.1.1. Preliminaries 73
3.1.2. The optimization problem 79
3.2. Direct method with the logarithmic utility 81
3.3. Optimization for standard investor: power utility 83
3.3.1. Decomposition of the optimization problem 84
3.3.2. Solution to the after-default optimization problem 88
3.3.3. Resolution of the before-default optimization problem . . . 91
3.3.4. Example and numerical illustrations 101
3.4. Decomposition method with the exponential utility 106
3.5. Optimization with insider's information 113
3.5.1. Insider's optimization problem 114
3.5.2. Decomposition of the optimization problem 119
3.5.3. The logarithmic utility case 127
3.5.4. Power utility case 129
3.6. Numerical illustrations 133

Chapter 4. Portfolio Optimization with Information Asymmetry 141

4.1. The market 143
4.1.1. Risk neutral probabilities measures for insider 145
4.1.2. Solution of the optimization problem 147
4.2. Optimal strategies in some examples of side-information 147
4.2.1. Initial strong insider 147
4.2.2. There exist i, $1 \leq i \leq d$, such that $L = \mathbf{1}_{[a,b]}(S^i_{T'})$, $0 < a < b$ 149
4.2.3. $L = \log(S^{i_1}_{T'}) - \log(S^{i_2}_{T'})$ 155
4.3. Numerical illustrations 157
4.3.1. $L = \mathbf{1}_{[a,b]}(S^1_{T'})$, $0 < a < b$ 158
4.3.2. $L = \log(S^1_{T'}) - \log(S^2_{T'})$ 159
4.3.3. $L = \mathbf{1}_{[a,b]}(S^1_{T'})$ 160
4.3.4. $L = \log(S^1_{T'}) - \log(S^2_{T'})$ 160

Bibliography 165

Index 175