

Empirical evidence

- The below diagram (from Leisen and Reimer, 1996) shows the error from the CRR model relative to $1/n$, where the upper line denotes how the error would reduce with $1/n$ convergence and the sawtooth pattern is the actual error

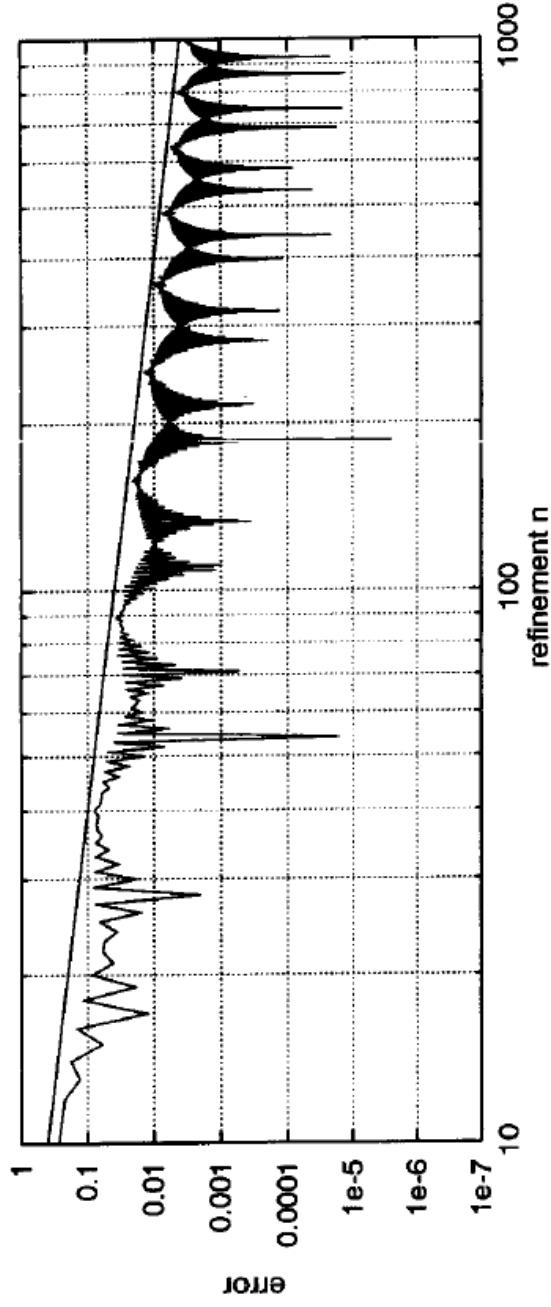


Fig. 4. Graphical representation and examination of the error bound; x-axis and y-axis with log-scale; example with CRR-model and the following selection of parameters: $S = 100$, $K = 110$, $T = 1$, $r = 0.05$, $\sigma = 0.3$, $n = 10, \dots, 1000$.