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Asian Call ¹

Art,

Could you please define Asian call?

Thanks.

Crop insurance expert.

Art's response.

The term Asian Call was something I picked up at the American Agricultural Economics Association meetings a few years ago. I don't have a citation on the term.

The difference between and Asian call and American call traded on the CBOT include:

1. There is no exercise right in an Asian call.
2. The call is settled on an average price rather than a spot price.

The premium difference is not great between an Asian and an American option. What really makes the difference in the Asian call premium built in to an RA or CRC contract is the adjustment for yield when calculating the settlement value of the Asian call. A CBOT call has a fixed yield of 5,000 bushels. The Asian call in RA requires a yield loss to trigger any HPO payments. If the grower meets that insurable yield loss test, then price must increase to trigger

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any payments from HPO. If the December CBOT corn call is a \$1 in the money at harvest then a CBOT call will pay \$5,000 less premium (any time during the life of the option, a \$1 in the money CBOT call will sell for \$1 plus time value, but time value will approach zero at harvest on a December corn call). If the price increases \$1, then an HPO endorsement on RA will pay \$1 times the number of indemnified bushels (assumes the average harvest price and spot price are the same). If there is no yield loss then the RA “Asian call” expires worthless.

Finally the RA Asian call is cheaper because of the subsidy. But remember that the yield adjusted Asian call started life in 1991 as a private product endorsement on the APH (MPIC) contract without any subsidy. Because the “Asian call” was adjusted for yield is the reason it was affordable without subsidy.

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