K

1. Kappa

Another name for *vega*. [See also **Vega**]

2. Keogh Plan

A pension plan for the self-employed which allows them to make contributions and defer taxes until the funds are withdrawn.

3. Key-Person Insurance

Most banks require key-person insurance on the principal officers of the borrowing company to protect their loans. Because the repayment of a loan usually depends upon the managers of the firm running the company profitability, the death or disability of a key manager could jeopardize the safety of the loan. To avoid this uncertainty, the borrower buys a term insurance policy on the life of the key manager for the value of the loan. If he or she should die, the proceeds of the policy would be paid to the bank in settlement of the loan. Key-person insurance is useful in sole proprietorships as well as corporations.

4. Kite

Writing checks against uncollected deposits in the process of clearing through the banking system.

5. Knock-in Option

An option in which there can only be a final payoff if, during a specified period of time, the price of the underlying asset has reached a specified level. This is one of the barrier options; it is attractive to some market participants because they are less expensive than the regular options.

6. Knock-out Option

An option in which there can only be a final payoff if, during a specified period of time, the price of the underlying asset has *not* reached a specified level. This is one of the barrier options; it is attractive to some market participants because they are less expensive than the regular options.

7. Kolmogorov Backward Equation

A partial differential equation that is related to the Black-Scholes equation and that is satisfied by probability distributions for the underlying asset.

8. Kurtosis

Characterizes relative peakedness or flatness of a given distribution compared to a normal distribution. It is the fourth moment of a distribution. Since the unconditional normal distribution has a kurtosis of 3, excess kurtosis is defined as K_{x-3}. Sample kurtosis can be defined as:

$$K_{x-3} = \sum_{i=1}^{n} (X_i - \overline{X})^4 / n - 3.$$

K_{x-3} can either be equal to, larger than, or smaller than 0. [See also **Leptokurtosis**]