

Variance Notional vs. Vega Notional

<http://www.happywednesday.org/portal/content/variance-notional-vs-vega-notional>

{In Variance Swap, the relationship between Vega Notional (the dollar value per vega or volatility point) and Variance Notional (the dollar value per variance unit) is conventionally expressed as

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$$VarianceNotional = \frac{VegaNotional}{2K_{Var}}$$

{The $2K_{Var}$ comes from the first order Taylor expansion (expand the function $f(\sigma_{Var}) = \sigma_{Var}^2 - K_{Var}^2$).