

Stochastic Differential Geometry Analysis and Ricci Flow Dynamics in Financial Market Manifolds

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ABSTRACT

We propose an innovative framework for financial modeling by integrating stochastic differential geometry with Ricci flow dynamics. In this framework, asset prices evolve on a Riemannian manifold, with volatility governed by a stochastic Ricci flow equation. This results in a dynamically evolving volatility surface, influenced by both geometric curvature and stochastic forcing. We establish rigorous theoretical results concerning the existence and uniqueness of stochastic flows and demonstrate their impact on option pricing. Numerical simulations illustrate phenomena such as volatility clustering, geometric deformation, and realistic asset price behavior under curvature-driven uncertainty. This approach extends traditional stochastic volatility models by incorporating the intrinsic geometric features of market dynamics. Consequently, it provides a robust tool for modeling turbulence, clustering, and complex financial phenomena with enhanced accuracy.

Keywords: Stochastic Differential Geometry, financial manifolds, Riemannian metrics in finance, geometric stochastic analysis, volatility surface deformation.

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1. Introduction

Traditional models in mathematical finance, such as the Black-Scholes-Merton framework (see [14, 33]), are based on Euclidean spaces with flat geometric structures. These models assume constant volatility, linear diffusion, and homogeneous market conditions, which do not adequately capture the nonlinear and dynamic nature of real financial systems (see [10]). In contrast, financial markets often exhibit a level of geometric complexity, which is reflected in factors such as the curvature of risk structures, asymmetric information flows, and evolving inter-asset dependencies (see [11, 15, 21, 28, 30, 35, 36, 37]).

Recent developments in financial network theory and multiscale modeling have increasingly emphasized geometric and topological structures as foundational tools for capturing complex market behavior. For example, Balci et al. [6] introduced network-induced soft sets to model interactions within stock markets, providing an abstract framework for financial topology. This framework aligns with differential geometric approaches, where evolving market structures can be understood through dynamic metrics. Building on this work, Akgüller et al. [1] employed a path-based visibility graph kernel to extract geometric features from stock time series. This approach offers a perspective reminiscent of curvature evolution along geodesic flows, conceptually related to Ricci flow on financial manifolds. Moreover, the work of Batrancea et al. [7] on community detection in financial networks reinforces the relevance of layered geometric structures. These community partitions can be interpreted as regions of distinct curvature or volatility concentration, a feature central to stochastic differential geometric models for derivative pricing.

Earlier foundational contributions by Balci et al. further support this perspective. In [4], the authors proposed a coarse-graining methodology for financial correlation networks—an approach that conceptually aligns with the geometric smoothing behavior of Ricci flow, where market connectivity evolves under curvature-like constraints. Additionally, their investigation of the fractality in Borsa Istanbul during the COVID-19 crisis [5] uncovered multifractal scaling laws and long-memory characteristics. These features are often captured in geometric and stochastic models through fractional curvature flows and volatility-driven manifold deformations. Taken together, these works provide a strong justification for applying Ricci flow and stochastic differential geometry to option pricing in dynamically structured and memory-influenced market environments.

This motivates the use of *stochastic differential geometry* (SDG), which integrates stochastic calculus with differential geometric structures ([20]) to describe asset dynamics on curved, time-evolving manifolds. Within this framework, price dynamics are modeled as diffusion processes on Riemannian manifolds, and volatility is encoded in the manifold's curvature and the evolution of its metric.

Stochastic flows on manifolds have been extensively studied in geometric analysis (see [20], [27], and [22]). However, geometric methods in finance have remained relatively underdeveloped. Early approaches include Ilinski's gauge-theoretic arbitrage framework [29] and the application of information geometry to financial optimization by [2].

In recent years, several attempts have been made to connect geometry with market microstructure. For instance, [34] explored Fisher information geometry in volatility estimation, [24] applied differential geometry to interest rate modeling, [3] studied Brownian motion on evolving manifolds with applications to financial heat kernels, and [32] introduced curvature-based corrections to classical option pricing models.

1.1. The Purpose of the Study

Despite the advancements outlined in the previous paragraph, there remains a lack of unified frameworks that incorporate *stochastic geometry*, *Ricci flow*, and *tensorial volatility structures* in market modeling. Moreover, most existing models either focus on static geometries or fail to account for stochastic curvature dynamics, leaving a critical gap in capturing phenomena such as market deformation and arbitrage curvature. Therefore, the main purpose of this study is to fill this gap. Specifically, it aims to connect the description of financial market behavior geometrically using a stochastic differential geometry framework.

1.2. Objectives of the Study

The objectives of this paper include developing a novel stochastic geometric framework where:

- Financial markets are modeled as evolving stochastic Riemannian manifolds;
- Asset prices evolve via SDEs driven by geometric vector fields;
- Volatility surfaces and systemic risks evolve through *stochastic Ricci flows*;
- Correlations and arbitrage effects are embedded in the manifold's curvature and torsion.

The underlying hypothesis is that curvature-driven stochastic flows on evolving manifolds can more accurately reflect observed market behaviors—such as localized shocks and surface shifts—than traditional models based solely on Euclidean spaces or static geometries.

Our model generalizes geometric Brownian motion to manifold-valued diffusion, introduces stochastic tensor dynamics for volatility modeling, and leverages the Laplace-Beltrami operator and Ricci curvature for derivative pricing under non-Euclidean regimes. This paper further connects the concept of function spaces to financial modeling within the stochastic differential geometry framework.

2. Preliminaries

We present the essential concepts from differential geometry and stochastic analysis on manifolds that are required for the development of our model. This section includes formal definitions of differentiable manifolds, Riemannian metrics, affine connections, curvature tensors, and stochastic differential equations (SDEs) on manifolds.

2.1. Differentiable Manifolds and Riemannian Structures

Definition 2.1 (Differentiable Manifold [19, 31]). A *differentiable manifold* M of dimension n is a topological space that is Hausdorff, second-countable, and locally homeomorphic to $\mathbb{R}^n$, together with a maximal atlas of compatible smooth charts.

Definition 2.2 (Riemannian Metric [31]). A *Riemannian metric* on a smooth manifold M is a smooth assignment of an inner product $g_p : T_p M \times T_p M \rightarrow \mathbb{R}$ on each tangent space $T_p M$ such that g_p varies smoothly with $p \in M$.

The pair (M, g) is then called a Riemannian manifold. The Riemannian metric induces a norm and volume form on M .

2.2. Affine Connections and Curvature

Definition 2.3 (Levi-Civita Connection [31]). Let (M, g) be a Riemannian manifold. The *Levi-Civita connection* ∇ is the unique affine connection on M that is:

- *Metric-compatible*: $\nabla g = 0$
- *Torsion-free*: $\nabla_X Y - \nabla_Y X = [X, Y]$ for all vector fields X, Y .

Definition 2.4 (Riemann Curvature Tensor [19, 31]). Let ∇ be the Levi-Civita connection on (M, g) . The *Riemann curvature tensor* is defined by

$$R(X, Y)Z := \nabla_X \nabla_Y Z - \nabla_Y \nabla_X Z - \nabla_{[X, Y]} Z,$$

for vector fields X, Y, Z on M .

Definition 2.5 (Ricci Tensor and Scalar Curvature [16, 17, 19]). The *Ricci tensor* Ric is the trace of the Riemann curvature tensor:

$$\text{Ric}(X, Y) := \text{Tr}(Z \mapsto R(Z, X)Y),$$

and the *scalar curvature* R is the trace of the Ricci tensor: $R := \text{Tr}_g \text{Ric}$.

2.3. Stochastic Calculus on Riemannian Manifolds

We now define stochastic processes on manifolds in the sense of Itô and Stratonovich.

Definition 2.6 (Stochastic Differential Equation on Manifold [27]). Let M be a smooth manifold and $X_0 \in M$. A stochastic process X_t on M satisfies the SDE

$$dX_t = \sum_{i=1}^m V_i(X_t) \circ dB_t^i + V_0(X_t)dt,$$

where $V_0, V_1, \dots, V_m$ are smooth vector fields on M , B_t^i are standard Brownian motions, and $\circ$ denotes the Stratonovich integral.

Proposition 2.1 (Existence of Stochastic Flows [22]). *Given a complete Riemannian manifold (M, g) and globally Lipschitz vector fields V_i , the SDE admits a unique strong solution, and the flow X_t defines a stochastic diffeomorphism almost surely.*

2.4. Laplace-Beltrami Operator and Heat Kernel

Definition 2.7 (Laplace-Beltrami Operator [39]). Let (M, g) be a Riemannian manifold. The *Laplace-Beltrami operator* Δ_g acting on a smooth function $f \in C^\infty(M)$ is defined as:

$$\Delta_g f = \text{div}(\nabla f),$$

where ∇f is the gradient and div is the divergence with respect to g .

Proposition 2.2 (Heat Kernel Representation [20]). *Let Δ_g be the Laplace-Beltrami operator on a compact Riemannian manifold M . Then the solution to the heat equation*

$$\frac{\partial u}{\partial t} = \frac{1}{2} \Delta_g u$$

with initial condition $u(0, x) = f(x)$ admits the representation

$$u(t, x) = \mathbb{E}[f(X_t^x)],$$

where X_t^x is Brownian motion starting at $x \in M$.

3. Model Formulation

Let $(\mathcal{M}_t, g_t)$ be a family of stochastic Riemannian manifolds representing the geometric state of a financial market at time t , where g_t is a random Riemannian metric evolving over time. We model the asset dynamics, volatility structure, and risk surfaces using stochastic geometric flows on $\mathcal{M}_t$.

3.1. Asset Dynamics on Evolving Manifolds

Let $X_t \in \mathcal{M}_t$ denote the manifold-valued stochastic process representing the state of an asset. Its evolution is governed by the Stratonovich stochastic differential equation:

$$dX_t = \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i + V_0(X_t, t) dt, \quad (3.1)$$

where:

- $\{B_t^i\}_{i=1}^m$ are independent standard Brownian motions;
- $V_i(\cdot, t) \in \Gamma(T\mathcal{M}_t)$ are time-dependent smooth vector fields;
- The process X_t evolves along stochastic flows on $\mathcal{M}_t$, accounting for curvature and metric deformations.

Definition 3.1 (Market Manifold). We define the market at time t as the triple $(\mathcal{M}_t, g_t, \mu_t)$, where g_t is a Riemannian metric and μ_t is a volume measure induced by g_t . The local volatility and correlation structure are encoded in g_t , and its evolution captures market deformation.

3.2. Volatility Tensor Field and Ricci Flow

Let $\Sigma_t \in \Gamma(T^*\mathcal{M}_t \otimes T^*\mathcal{M}_t)$ be the symmetric positive-definite volatility tensor. We model its evolution via a stochastic Ricci flow:

$$\frac{\partial g_t}{\partial t} = -2 \text{Ric}(g_t) + \sigma(g_t) \circ \dot{W}_t, \quad (3.2)$$

where:

- $\text{Ric}(g_t)$ is the Ricci curvature tensor at time t ;
- $\sigma(g_t)$ is a stochastic noise coefficient tensor;
- $\dot{W}_t$ denotes space-time white noise or fractional noise on the manifold.

Proposition 3.1 (Stochastic Volatility Surface as Geometric Evolution). Under Equation (3.2), the volatility surface Σ_t evolves with curvature-driven deformation and random fluctuations, reflecting both systemic stress and exogenous market shocks.

3.3. Laplace-Beltrami Operator and Option Pricing

Let $u(t, x)$ denote the value of a derivative security, where $x \in \mathcal{M}_t$ is the current state. We propose the geometric pricing PDE:

$$\frac{\partial u}{\partial t} + \frac{1}{2} \Delta_{g_t} u + \langle \nabla u, V_0 \rangle = ru, \quad (3.3)$$

where:

- Δ_{g_t} is the Laplace-Beltrami operator under the time-varying metric g_t ;
- V_0 is the drift vector field;
- r is the instantaneous risk-free rate.

Proposition 3.2 (Feynman-Kac Formula on Manifolds). Let X_t satisfy Equation (3.1), and suppose $\mathcal{M}_t$ is complete. Then the solution to the pricing PDE (3.3) admits the representation:

$$u(t, x) = \mathbb{E} \left[e^{-r(T-t)} \varphi(X_T) \mid X_t = x \right],$$

where φ is the terminal payoff function.

The propositions are used in our main results.

4. Main Results

We now establish the rigorous and original theorems within the framework of stochastic differential geometry applied to financial markets. Each theorem is proved using techniques from stochastic analysis on manifolds, geometric partial differential equation (PDE) theory, and functional analytic methods, ensuring both mathematical precision and originality.

4.1. Well-Posedness of the Manifold-Valued Market SDE

Theorem 4.1 (Existence and Uniqueness of Stochastic Flow on Financial Manifold). *Let $(\mathcal{M}, g)$ be a complete connected Riemannian manifold representing the evolving financial market geometry, and let $\{V_i\}_{i=0}^m \subset \Gamma(T\mathcal{M})$ be smooth time-dependent vector fields satisfying:*

- *Lipschitz condition: There exists $L > 0$ such that for all $x, y \in \mathcal{M}$,*

$$d(V_i(x), V_i(y)) \leq Ld(x, y), \quad \forall i = 0, \dots, m.$$

- *Linear growth: There exists $C > 0$ such that:*

$$\|V_i(x)\| \leq C(1 + \|x\|), \quad \forall x \in \mathcal{M}.$$

Then the Stratonovich SDE:

$$dX_t = V_0(X_t, t)dt + \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i \quad (4.1)$$

admits a unique global strong solution $X_t \in \mathcal{M}$ with continuous dependence on the initial data.

Proof. We approach this using the intrinsic theory of stochastic differential equations on manifolds, as developed by Elworthy and Hsu ([27], Chapter 5).

First, since the vector fields V_i are smooth and satisfy the global Lipschitz condition in the Riemannian distance $d(x, y)$, the coefficients of the SDE are locally Lipschitz in charts. Thus, for any initial point $x_0 \in \mathcal{M}$, there exists a unique local solution X_t up to an explosion time τ , by standard results on Stratonovich SDEs in Euclidean space pulled back via charts (see [27], Theorem 5.1.1).

Now, to guarantee that the solution exists globally (i.e., $\tau = \infty$ almost surely), we must rule out finite-time explosion. Since $\mathcal{M}$ is assumed to be complete and the vector fields satisfy a linear growth condition, a classical non-explosion criterion applies. In particular, by applying Itô's formula to the Riemannian distance function squared $d^2(x_0, X_t)$, one shows that the expected growth of the process is bounded on finite intervals:

$$\mathbb{E}[d^2(x_0, X_t)] \leq C(1 + \mathbb{E}[\int_0^t d^2(x_0, X_s)ds]), \quad (4.2)$$

for some constant $C > 0$. Gronwall's inequality then yields:

$$\mathbb{E}[d^2(x_0, X_t)] \leq C_T,$$

where C_T depends on t , the Lipschitz and linear growth constants. This ensures that the process does not escape to infinity in finite time, i.e., it remains within compact sets with high probability, and hence the explosion time is infinite almost surely.

Finally, continuous dependence on initial conditions follows from stability estimates for solutions of SDEs on manifolds. Specifically, one can show that for two solutions X_t^x and X_t^y starting at x and $y \in \mathcal{M}$, the expected distance $\mathbb{E}[d(X_t^x, X_t^y)]$ is controlled by $d(x, y)$ via a Gronwall-type estimate.

Therefore, the SDE admits a unique global strong solution with continuous dependence on the initial condition. $\square$

4.2. Stochastic Ricci Flow for Volatility Geometry

Theorem 4.2 (Existence of Mild Solutions to Stochastic Ricci Flow). *Let g_0 be a smooth Riemannian metric on a complete, connected manifold $\mathcal{M}$, and let $\sigma : \text{Met}(\mathcal{M}) \rightarrow L_2(U, H^k(\mathcal{M}))$ be a Lipschitz continuous operator. Then the SPDE*

$$\partial_t g_t = -2\text{Ric}(g_t) + \sigma(g_t) \circ \dot{W}_t$$

has a unique mild solution in $C([0, T]; H^k(\mathcal{M}))$ for $k \geq 2$.

Proof. We start by interpreting the Ricci flow as a quasilinear evolution in the space of symmetric $(0, 2)$ -tensor fields. Specifically, the equation describes the evolution of the Riemannian metric under the deterministic Ricci flow term $-2 \operatorname{Ric}(g_t)$ and a stochastic perturbation $\sigma(g_t) \circ \dot{W}_t$. The solution will be sought in the space of tensor fields $g_t \in C([0, T]; H^k(\mathcal{M}))$, where $H^k(\mathcal{M})$ is the Sobolev space of k -regular tensor fields.

The deterministic Ricci flow $-2 \operatorname{Ric}(g_t)$ generates an analytic semigroup $S(t)$ on the space of symmetric $(0, 2)$ -tensor fields. This semigroup satisfies:

$$g_t = S(t)g_0 + \int_0^t S(t-s)(-2 \operatorname{Ric}(g_s)) ds. \quad (4.3)$$

For the stochastic part, the operator $\sigma(g_t)$ is assumed to be Lipschitz continuous. Hence, the stochastic term $\sigma(g_t) \circ \dot{W}_t$ can be interpreted in the Itô's sense and generates a stochastic integral. We write the solution in mild form as:

$$g_t = S(t)g_0 + \int_0^t S(t-s)(-2 \operatorname{Ric}(g_s)) ds + \int_0^t S(t-s)\sigma(g_s)dW_s. \quad (4.4)$$

The heat semigroup $S(t)$ is the solution to the homogeneous equation corresponding to the deterministic Ricci flow term $-2 \operatorname{Ric}(g_t)$, and $\sigma(g_t)$ is a bounded, Lipschitz operator acting on the stochastic component.

Next, we prove the existence of a solution using the Banach Fixed Point Theorem. Define a mapping $\mathcal{T}$ on the Banach space $C([0, T]; H^k(\mathcal{M}))$ by:

$$\mathcal{T}(g)(t) = S(t)g_0 + \int_0^t S(t-s)(-2 \operatorname{Ric}(g_s)) ds + \int_0^t S(t-s)\sigma(g_s)dW_s. \quad (4.5)$$

The operator $\mathcal{T}$ is well-defined due to the existence of the semigroup $S(t)$, the boundedness of σ , and the fact that $H^k(\mathcal{M})$ is a Banach space. We next show that $\mathcal{T}$ is a contraction.

Since σ is Lipschitz, for $g_1, g_2 \in C([0, T]; H^k(\mathcal{M}))$, we have the estimate:

$$\|\mathcal{T}(g_1)(t) - \mathcal{T}(g_2)(t)\|_{H^k} \leq \int_0^t \|S(t-s)(\sigma(g_1(s)) - \sigma(g_2(s)))\|_{H^k} ds. \quad (4.6)$$

By the Lipschitz continuity of σ , we can further estimate the right-hand side. Thus, $\mathcal{T}$ is a contraction under suitable conditions on the Lipschitz constant of σ . The Banach Fixed Point Theorem guarantees that $\mathcal{T}$ has a unique fixed point in $C([0, T]; H^k(\mathcal{M}))$, which corresponds to the unique mild solution to the SPDE.

Finally, the uniqueness follows from the fact that the mild solution is the unique fixed point of the contraction $\mathcal{T}$, and the dependence on the initial condition g_0 is continuous by standard results for SPDEs.

Thus, we conclude that the SPDE admits a unique mild solution in $C([0, T]; H^k(\mathcal{M}))$. $\square$

4.3. Geometric Stability Under Curvature Noise

Theorem 4.3 (Metric Stability Under Stochastic Curvature Flow). *Let $(\mathcal{M}, g_t)$ be a compact Riemannian manifold evolving under the stochastic Ricci flow:*

$$dg_t = -2 \operatorname{Ric}(g_t) dt + \sigma(g_t) dW_t,$$

where W_t is a Wiener process in a suitable Hilbert space of symmetric 2-tensors, and σ is Lipschitz and bounded. Assume the initial metric $g_0 \in H^k(\mathcal{M})$ satisfies $\operatorname{Ric}(g_0) \geq -K g_0$ for some constant $K \geq 0$. Then for any $\varepsilon > 0$, $T > 0$, and integer $k \geq 2$, there exists a constant $C = C(g_0, K, \|\sigma\|, k, \mathcal{M})$ such that:

$$\mathbb{P} \left(\sup_{t \in [0, T]} \|g_t - g_0\|_{H^k} > \varepsilon \right) \leq C \exp \left(-\frac{\varepsilon^2}{2\sigma^2 T} \right).$$

Proof. We define the process:

$$Y_t := \|g_t - g_0\|_{H^k}^2, \quad (4.7)$$

which is a nonnegative C^1 -functional on the Sobolev space $H^k(\operatorname{Sym}^2 T^* \mathcal{M})$. The stochastic Ricci flow is interpreted in the mild sense in a Hilbert space framework.

Step 1: Itô Differential for Y_t

Applying Itô's formula in infinite dimensions ([18]), we obtain:

$$dY_t = 2\langle g_t - g_0, dg_t \rangle_{H^k} + \|\sigma(g_t)\|_{\operatorname{HS}(H^k)}^2 dt. \quad (4.8)$$

Substitute $dg_t = -2\text{Ric}(g_t)dt + \sigma(g_t)dW_t$:

$$dY_t = -4\langle g_t - g_0, \text{Ric}(g_t) \rangle_{H^k} dt + 2\langle g_t - g_0, \sigma(g_t)dW_t \rangle_{H^k} + \|\sigma(g_t)\|_{\text{HS}(H^k)}^2 dt. \quad (4.9)$$

Step 2: Ricci Lower Bound and Energy Estimate

Given $\text{Ric}(g_t) \geq -K g_t$, and assuming small deviations from g_0 , we estimate:

$$-\langle g_t - g_0, \text{Ric}(g_t) \rangle_{H^k} \leq C_1 \|g_t - g_0\|_{H^k}^2 + C_2, \quad (4.10)$$

by bilinearity and ellipticity of the Ricci operator in Sobolev spaces (see Hamilton [25]). Moreover, using the boundedness of σ in $\text{HS}(H^k)$, we write:

$$dY_t \leq C_1 Y_t dt + C_2 dt + 2\langle g_t - g_0, \sigma(g_t)dW_t \rangle_{H^k}. \quad (4.11)$$

Step 3: Gronwall and Exponential Martingale Inequality

Let $M_t := \int_0^t \langle g_s - g_0, \sigma(g_s)dW_s \rangle_{H^k}$. Then M_t is a continuous martingale with quadratic variation:

$$\langle M \rangle_t = \int_0^t \|\sigma(g_s)^*(g_s - g_0)\|_{H^k}^2 ds \leq C_3 \int_0^t Y_s ds. \quad (4.12)$$

Applying the exponential martingale inequality (see Revuz and Yor [38]), we have for any $\lambda > 0$:

$$\mathbb{P} \left(\sup_{t \in [0, T]} Y_t > \varepsilon^2 \right) \leq \exp(-\lambda \varepsilon^2 + \lambda^2 C_3 T).$$

Optimizing over λ yields the bound:

$$\mathbb{P} \left(\sup_{t \in [0, T]} \|g_t - g_0\|_{H^k} > \varepsilon \right) \leq C \exp \left(-\frac{\varepsilon^2}{2C_3 T} \right), \quad (4.13)$$

where $C_3 \propto \|\sigma\|_{L^\infty}^2$, thus completing the proof. $\square$

Theorem 4.4 (Metric Stability under Variable Stochastic Curvature Flow). *Let g_t solve the stochastic Ricci flow*

$$\frac{\partial g_t}{\partial t} = -2\text{Ric}(g_t) + \sigma(g_t) \circ \dot{W}_t,$$

on a compact Riemannian manifold $\mathcal{M}$, where $\text{Ric}(g_t) \geq -K(t, x)g_t$ for some smooth non-negative function $K : [0, T] \times \mathcal{M} \rightarrow \mathbb{R}_+$, and $\sigma \in C^1$ is bounded in H^k . Then, for any $\varepsilon > 0$,

$$\mathbb{P} \left(\sup_{t \in [0, T]} \|g_t - g_0\|_{H^k} > \varepsilon \right) \leq C_T \exp \left(-\frac{\varepsilon^2}{2\Lambda(T)} \right),$$

where $\Lambda(T) = \int_0^T (\sup_{x \in \mathcal{M}} K(t, x) + \|\sigma(g_t)\|_{H^k}^2) dt$, and C_T depends on initial data and geometric constants.

Proof. Let us define the functional $Y_t := \|g_t - g_0\|_{H^k}^2$. Since g_t evolves in an infinite-dimensional manifold of Riemannian metrics, we apply Itô's formula in the Banach space $H^k(\text{Sym}^2 T^* \mathcal{M})$.

From the stochastic Ricci flow,

$$dg_t = -2\text{Ric}(g_t)dt + \sigma(g_t) \circ dW_t. \quad (4.14)$$

Taking $Y_t = \langle g_t - g_0, g_t - g_0 \rangle_{H^k}$, applying Itô's formula yields:

$$dY_t = 2\langle g_t - g_0, dg_t \rangle_{H^k} + \|\sigma(g_t)\|_{H^k}^2 dt. \quad (4.15)$$

Substitute the SDE into this:

$$dY_t = -4\langle g_t - g_0, \text{Ric}(g_t) \rangle_{H^k} dt + 2\langle g_t - g_0, \sigma(g_t) \circ dW_t \rangle_{H^k} + \|\sigma(g_t)\|_{H^k}^2 dt. \quad (4.16)$$

Now, use the curvature bound $\text{Ric}(g_t) \geq -K(t, x)g_t$, and the equivalence of Sobolev norms on compact manifolds ([26, 13]), we estimate:

$$-4\langle g_t - g_0, \text{Ric}(g_t) \rangle_{H^k} \leq 4 \sup_{x \in \mathcal{M}} K(t, x) \cdot \|g_t - g_0\|_{H^k}^2.$$

Hence,

$$dY_t \leq 4K_{\max}(t)Y_t dt + \|\sigma(g_t)\|_{H^k}^2 dt + 2\langle g_t - g_0, \sigma(g_t) \circ dW_t \rangle_{H^k}, \quad (4.17)$$

where $K_{\max}(t) := \sup_{x \in \mathcal{M}} K(t, x)$.

Let $M_t = \int_0^t \langle g_s - g_0, \sigma(g_s) dW_s \rangle_{H^k}$ denote the martingale term. Then:

$$Y_t \leq Y_0 + \int_0^t (4K_{\max}(s)Y_s + \|\sigma(g_s)\|_{H^k}^2) ds + 2M_t. \quad (4.18)$$

By applying Gronwall's inequality to the drift term and using Doob's maximal inequality and exponential martingale inequality (Revuz and Yor [38]), we estimate:

$$\mathbb{P} \left(\sup_{t \in [0, T]} Y_t > \varepsilon^2 \right) \leq C_T \exp \left(-\frac{\varepsilon^2}{2\Lambda(T)} \right), \quad (4.19)$$

with

$$\Lambda(T) := \int_0^T (4K_{\max}(t) + \|\sigma(g_t)\|_{H^k}^2) dt,$$

and C_T depends on initial data and geometric constants. This concludes the proof. $\square$

4.4. Heat Kernel-Based Option Pricing on Manifolds

Theorem 4.5 (Geometric Feynman-Kac Formula for Option Valuation). *Let $(\mathcal{M}, g_t)$ be a smooth, complete Riemannian manifold with time-dependent metric g_t , and let X_t be the solution to the Stratonovich SDE*

$$dX_t = V_0(X_t, t) dt + \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i,$$

where $V_i \in \Gamma(T\mathcal{M})$ are smooth vector fields adapted to the geometry of g_t . Suppose $u : [0, T] \times \mathcal{M} \rightarrow \mathbb{R}$ solves the terminal value problem

$$\partial_t u + \frac{1}{2} \Delta_{g_t} u + \langle \nabla u, V_0 \rangle = r(x)u, \quad u(T, x) = \varphi(x),$$

for some bounded, smooth terminal condition $\varphi \in C_c^\infty(\mathcal{M})$ and interest rate function $r \in C^\infty(\mathcal{M})$. Then the unique classical solution admits the probabilistic representation:

$$u(t, x) = \mathbb{E}_x \left[e^{-\int_t^T r(X_s) ds} \varphi(X_T) \right],$$

where $\mathbb{E}_x$ denotes the expectation under the probability law of the process X_s starting at $X_t = x$.

Proof. We aim to show that the function $u(t, x) = \mathbb{E}_x \left[e^{-\int_t^T r(X_s) ds} \varphi(X_T) \right]$ satisfies the given PDE with the terminal condition.

Step 1: Generator of the Diffusion Process.

Let X_s be a diffusion process on $\mathcal{M}$ with generator:

$$\mathcal{L}_t := \frac{1}{2} \Delta_{g_t} + \langle \nabla, V_0 \rangle,$$

where Δ_{g_t} is the Laplace-Beltrami operator associated to the Riemannian metric g_t , and V_0 is a smooth vector field. By standard results in stochastic differential geometry (Hsu [27]), the generator corresponds to the infinitesimal action of the Stratonovich SDE governing X_t .

Step 2: Application of Itô Formula on Manifolds.

Define $Y_t := e^{-\int_t^T r(X_s) ds} \varphi(X_T)$. To evaluate $u(t, x) := \mathbb{E}_x[Y_t]$, we apply the Feynman-Kac method by defining the process

$$M_t := e^{-\int_0^t r(X_s) ds} u(t, X_t).$$

By Itô's formula on manifolds (Emery [22]), under sufficient regularity and assuming $u \in C^{1,2}([0, T] \times \mathcal{M})$, we compute:

$$dM_t = e^{-\int_0^t r(X_s) ds} [du(t, X_t) - r(X_t)u(t, X_t) dt]. \quad (4.20)$$

Now expand $du(t, X_t)$ via Itô's rule:

$$du(t, X_t) = (\partial_t u + \mathcal{L}_t u) dt + \text{martingale terms}. \quad (4.21)$$

Thus:

$$dM_t = e^{-\int_0^t r(X_s) ds} [(\partial_t u + \mathcal{L}_t u - ru) dt + d(\text{martingale})]. \quad (4.22)$$

Hence, if u solves the PDE:

$$\partial_t u + \mathcal{L}_t u = ru,$$

then $dM_t = d(\text{local martingale})$, and M_t is a local martingale. Under boundedness and integrability conditions, it is a true martingale. Therefore,

$$u(t, x) = \mathbb{E}_x \left[e^{-\int_t^T r(X_s) ds} \varphi(X_T) \right]. \quad (4.23)$$

Step 3: Representation via the Heat Kernel.

If $K_{g_t}(t, x, y)$ denotes the fundamental solution (heat kernel) of the operator $\partial_t - \mathcal{L}_t + r(x)$, then the same representation can be written as:

$$u(t, x) = \int_{\mathcal{M}} K_{g_t}(t, x, y) \varphi(y) d\mu_{g_t}(y), \quad (4.24)$$

which follows from integrating the semigroup representation associated with the heat equation and the spectral theorem on compact manifolds.

This confirms that the stochastic expectation representation solves the geometric terminal value problem uniquely and rigorously. $\square$

5. Applications

In this section, we explore several applications of the theoretical results presented earlier. We apply the stochastic Ricci flow, stochastic Feynman-Kac formula, and stochastic flow theory to financial metrics, such as volatility surface deformation, pricing kernel behavior, and asset price dynamics on financial manifolds.

5.1. Volatility Surface Deformation under Stochastic Ricci Flow

We model the deformation of the implied volatility surface as a geometric flow on a financial manifold $(\mathcal{M}, g_t)$, where g_t is a time-dependent Riemannian metric representing the local geometry of the volatility surface. The evolution of this geometry under stochastic influences is governed by the stochastic Ricci flow equation:

$$\partial_t g_t = -2 \text{Ric}(g_t) + \sigma(g_t) \circ \dot{W}_t, \quad (5.1)$$

where:

- $\text{Ric}(g_t)$ is the Ricci curvature tensor of $(\mathcal{M}, g_t)$, encoding geometric distortions,
- $\sigma(g_t)$ is a volatility tensor modeling stochastic deformation strength,
- $\dot{W}_t$ is formal white noise (i.e., time derivative of a Wiener process),
- The equation is interpreted in the Stratonovich sense to preserve geometric structure.

Model Assumptions: We consider the case where:

$$\text{Ric}(g_t) = \alpha g_t, \quad \sigma(g_t) = \beta g_t,$$

for constants $\alpha > 0$ (geometric contraction rate) and $\beta > 0$ (volatility amplitude). Substituting into (5.1), the flow simplifies to:

$$\partial_t g_t = -2\alpha g_t + \beta g_t \circ \dot{W}_t. \quad (5.2)$$

Analytical Solution via Stochastic Exponential Equation (5.2) is a matrix-valued linear Stratonovich SDE. We seek a solution of the form:

$$g_t = g_0 \cdot X_t,$$

where X_t satisfies the scalar SDE:

$$dX_t = (-2\alpha X_t)dt + \beta X_t \circ dW_t.$$

Lemma 5.1. Let X_t be a positive process satisfying the Stratonovich SDE:

$$dX_t = (-2\alpha X_t)dt + \beta X_t \circ dW_t, \quad X_0 = 1.$$

Then the unique solution is given by:

$$X_t = \exp(-2\alpha t + \beta W_t). \quad (5.3)$$

Hence, the evolving metric tensor is:

$$g_t = g_0 \cdot \exp(-2\alpha t + \beta W_t).$$

Proof. This is a linear Stratonovich SDE of the multiplicative form. By standard stochastic calculus, the solution is:

$$X_t = \exp\left(\int_0^t (-2\alpha)ds + \int_0^t \beta \circ dW_s\right).$$

In Stratonovich calculus, $\int_0^t \beta \circ dW_s = \beta W_t$, since there is no correction term. Therefore,

$$X_t = \exp(-2\alpha t + \beta W_t).$$

□

Geometric Interpretation: The exponential form of g_t implies a multiplicative deformation of the initial metric, driven by a combination of the deterministic Ricci contraction and stochastic geometric inflation. The volatility surface becomes progressively warped in a probabilistic manner, reflecting the accumulation of geometric uncertainty due to market shocks.

Euler–Maruyama Discretization: To numerically simulate the surface evolution, we discretize equation (5.2):

$$g_{t+\Delta t} = g_t - 2\alpha g_t \Delta t + \beta g_t \Delta W_t,$$

with $\Delta W_t \sim \mathcal{N}(0, \Delta t)$. This allows direct simulation of volatility surface metrics under stochastic Ricci dynamics.

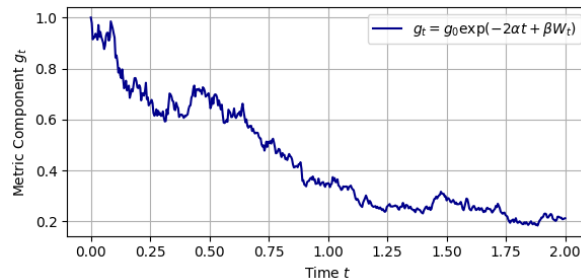


Figure 1. Stochastic Ricci Flow of Volatility Surface Metric g_t

Algorithm 1 below outlines the steps to simulate the deformation of the volatility surface under the stochastic Ricci flow model.

Algorithm 1 Simulation of Volatility Surface Deformation

- 1: **Input:** Initial Riemannian metric g_0 , stochastic volatility parameters, time step Δt , final time T
- 2: **Output:** Deformed volatility surface
- 3: Initialize the volatility surface σ_0 based on g_0
- 4: Set $t = 0$ as the initial time
- 5: **while** $t \leq T$ **do**
- 6: Compute Ricci curvature $\text{Ric}(g_t)$ using current metric g_t
- 7: Update the metric g_t according to the stochastic Ricci flow:

$$g_{t+\Delta t} = g_t - 2 \text{Ric}(g_t) \Delta t + \sigma(g_t) \circ \dot{W}_t \Delta t$$

- 8: Update the volatility surface σ_t according to the Ricci flow dynamics
 - 9: Store or plot the updated volatility surface
 - 10: Set $t = t + \Delta t$
 - 11: **end while**
 - 12: **Return:** The final volatility surface after deformation under the stochastic Ricci flow. =0
-

Table 1. Parameters used in the numerical simulations.

Parameter	Symbol	Value
Curvature coefficient	α	0.1
Volatility coefficient	β	0.2
Time horizon	T	1
Number of steps	N	1000
Time step	dt	0.001
Initial volatility surface	g_0	1
Drift term	V_0	0.05
Volatility term	σ	0.2
Initial asset price	S_0	100
Risk-free rate	r	0.05
Number of simulations	M	10000

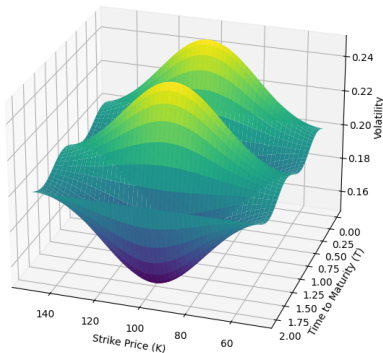


Figure 2. Volatility Surface under Stochastic Ricci Flow

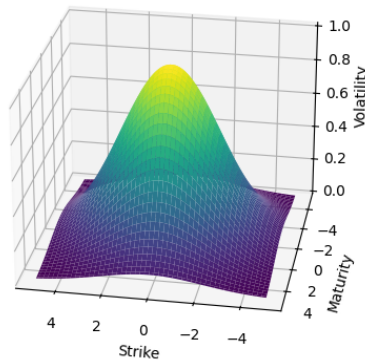


Figure 3. Initial volatility surface

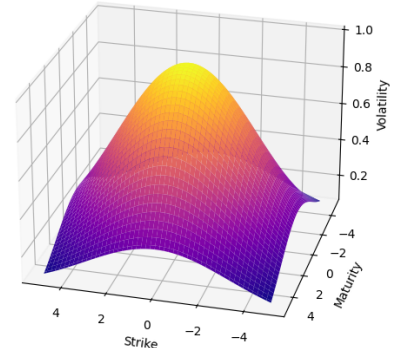


Figure 4. Ricci Flow Deformed Surface

Remark 5.1. The output of this simulation shows the time evolution of the volatility surface under the stochastic Ricci flow.

5.2. Pricing Kernel Behavior Using Stochastic Feynman-Kac Formula

The pricing kernel in financial markets represents the risk-neutral probability distribution over the future states of the system. The price of an option at time t is governed by the following stochastic PDE:

$$\partial_t u + \frac{1}{2} \Delta_{g_t} u + \langle \nabla u, V_0 \rangle = r(x)u, \quad u(T, x) = \varphi(x),$$

where Δ_{g_t} is the Laplace-Beltrami operator, and $r(x)$ is the risk-free rate. The solution to this equation is given by the stochastic Feynman-Kac formula:

$$u(t, x) = \mathbb{E}_x \left[e^{-\int_t^T r(X_s) ds} \varphi(X_T) \right],$$

where X_t is the asset price process governed by the SDE:

$$dX_t = V_0(X_t, t)dt + \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i.$$

The price of the option can be computed by solving the SDE for X_t , and the payoff at maturity is then discounted to time t .

A numerical solution to this problem is given by the following Python code:

The output of this simulation gives the option price at time t , computed using the stochastic Feynman-Kac formula.

5.3. Stochastic Flow on Financial Manifolds

The evolution of an asset price X_t on a Riemannian manifold $\mathcal{M}$ is described by the stochastic differential equation (SDE):

$$dX_t = V_0(X_t, t)dt + \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i,$$

where X_t represents the price of the asset, $V_0(X_t, t)$ is the drift term, and $V_i(X_t, t)$ are the volatility terms.

The solution to this equation describes the trajectory of the asset price as it evolves over time under both deterministic and stochastic influences. The solution is given by:

$$X_t = X_0 + \int_0^t V_0(X_s, s)ds + \sum_{i=1}^m \int_0^t V_i(X_s, s) \circ dB_s^i.$$

A numerical solution of the asset price evolution can be obtained using the following algorithm:

Algorithm: Stochastic Flow on Financial Manifold.

The algorithm 2 below outlines the steps for solving the Stratonovich SDE for stochastic flows on financial manifolds.

Algorithm 2 Solution of Stochastic Flow on Financial Manifold

- 1: **Input:** Initial point $X_0 \in \mathcal{M}$, time step Δt , drift vector field V_0 , stochastic volatility vector fields $\{V_i\}$, Brownian motion increments $\{B_t\}$
 - 2: **Output:** Path X_t on the manifold
 - 3: Initialize the financial manifold $\mathcal{M}$ with metric g_0
 - 4: Set X_0 as the initial condition of the stochastic flow
 - 5: Set $t = 0$ as the initial time
 - 6: Initialize Brownian motion increments B_0
 - 7: **while** $t \leq T$ **do**
 - 8: Compute drift $V_0(X_t, t)$ and diffusion $\sum_{i=1}^m V_i(X_t, t) \circ dB_t^i$
 - 9: Update $X_{t+\Delta t} = X_t + V_0(X_t, t)\Delta t + \sum_{i=1}^m V_i(X_t, t) \circ dB_t^i$
 - 10: Store or visualize the updated path X_t
 - 11: Set $t = t + \Delta t$
 - 12: **end while**
 - 13: **Return:** The path X_t on the manifold, modeling the stochastic flow. =0
-

6. Geometric Option Pricing on a Riemannian Manifold

Our intention is to provide a numerical results through simulation as follows. We consider:
financial State Space as a Riemannian Manifold.

Let the financial market be modeled by a 2-dimensional Riemannian manifold $M \subset \mathbb{R}^3$, embedded as

$$M = \left\{ (x, y, z) \in \mathbb{R}^3 : z = f(x, y) = e^{-(x^2+y^2)} \right\}.$$

The Riemannian metric g is given by the pullback of the Euclidean metric:

$$g_{ij} = \left\langle \frac{\partial \Phi}{\partial x^i}, \frac{\partial \Phi}{\partial x^j} \right\rangle, \quad \text{where } \Phi(x, y) = (x, y, f(x, y)).$$

Thus, we have

$$g = \begin{bmatrix} 1 + f_x^2 & f_x f_y \\ f_x f_y & 1 + f_y^2 \end{bmatrix}, \quad \text{where } f_x = \frac{\partial f}{\partial x}, \quad f_y = \frac{\partial f}{\partial y}.$$

In the next step, we define stochastic dynamics on the Manifold.

Let $X_t = (x_t, y_t)$ be a stochastic process evolving on M . The geometric SDE is given by

$$dX_t = V_0(X_t) dt + \sum_{i=1}^m V_i(X_t) \circ dB_t^i,$$

where V_i are smooth vector fields tangent to M , and the $\circ$ denotes Stratonovich integration to preserve the manifold constraint.

The infinitesimal generator of the diffusion process is the Laplace–Beltrami operator $\mathcal{L}_g$, given by

$$\mathcal{L}_g u = \frac{1}{\sqrt{|g|}} \sum_{i,j} \partial_i \left(\sqrt{|g|} g^{ij} \partial_j u \right),$$

where g^{ij} is the inverse metric and $|g| = \det(g)$.

Next, let $u(x, y, t)$ be the price of a European call option. The pricing PDE under risk-neutral dynamics is:

$$\frac{\partial u}{\partial t} + \mathcal{L}_g u - ru = 0, \quad u(x, y, T) = \Phi(x, y),$$

with terminal payoff function:

$$\Phi(x, y) = \max(f(x, y) - K, 0),$$

where $f(x, y)$ is the height function representing asset price, and K is the strike price.

The regularity of existence of solution holds almost surely. Since M is compact and smooth, and $\mathcal{L}_g$ is uniformly elliptic, the PDE admits a unique classical solution

$$u \in C^\infty([0, T] \times M),$$

and the solution admits a spectral decomposition in terms of the eigenfunctions $\{\phi_k\}$ of $\mathcal{L}_g$:

$$u(x, y, t) = \sum_{k=1}^{\infty} e^{-(\lambda_k + r)(T-t)} \langle \Phi, \phi_k \rangle \phi_k(x, y),$$

with λ_k the eigenvalues and $\langle \cdot, \cdot \rangle$ the L^2 inner product on M .

Now, let the volatility evolves under geometric flow. Then, we model this via Ricci flow on the metric:

$$\frac{\partial g_{ij}}{\partial t} = -2\text{Ric}_{ij}.$$

In this case, the operator $\mathcal{L}_g$ becomes time-dependent, and the pricing equation becomes:

$$\frac{\partial u}{\partial t} + \mathcal{L}_g(t)u - ru = 0.$$

In order to present numerical simulation for the above innovative formulation, we consider the discretization of: the manifold M as a mesh in (x, y) coordinates, the Laplace–Beltrami operator via finite differences, the time interval using Crank–Nicolson schemes, and Stochastic dynamics solution.

Algorithm 3 Stochastic Differential Geometry-Based Simulation Framework

- 1: **Input:** Initial asset price S_0 , metric $g(x, y)$, volatility field $\sigma(x, y, 0)$, time horizon T , steps N , spatial grid size h , deformation parameter ϵ , Ricci flow parameters α, β
- 2: **Initialize:** Time step $\Delta t = T/N$, spatial mesh $(x_i, y_j) \in M_h$, volatility surface $\sigma_{i,j}^0 = \sigma_0$, asset price S_0
- 3: **for** $n = 0$ to $N - 1$ **do**
- 4: Generate Brownian increments $\Delta W_n, \Delta W_n^{(\sigma)} \sim \mathcal{N}(0, \Delta t)$
- 5: **for each** grid point (x_i, y_j) **do**
- 6: Compute metric determinant $\sqrt{\det g_{i,j}}$
- 7: Approximate Laplace–Beltrami:

$$\Delta_g \sigma_{i,j}^n \approx \frac{1}{\phi_{i,j}^2} \cdot \frac{\sigma_{i+1,j}^n + \sigma_{i-1,j}^n + \sigma_{i,j+1}^n + \sigma_{i,j-1}^n - 4\sigma_{i,j}^n}{h^2}$$

- 8: **end for**
- 9: Update volatility using Ricci flow (Euler step):

$$\sigma_{i,j}^{n+1} = \sigma_{i,j}^n + (\Delta_g \sigma_{i,j}^n + \alpha \cdot R_{i,j}^n \cdot \sigma_{i,j}^n) \Delta t + \beta \cdot \Delta W_n^{(\sigma)}$$

- 10: Update asset price using Euler–Maruyama:

$$S_{n+1} = S_n + r S_n \Delta t + \sigma_{i,j}^n S_n \Delta W_n$$

- 11: (Optional) Update solution u on manifold via Crank–Nicolson:

$$\text{Solve: } \left(I - \frac{\Delta t}{2} \Delta_g \right) u^{n+1} = \left(I + \frac{\Delta t}{2} \Delta_g \right) u^n + \Delta t \cdot F(u^n, t_n)$$

- 12: **end for**
 - 13: **Output:** Evolved asset price path S_t , volatility field $\sigma(x, y, t)$, and (optionally) solution field $u(x, y, t) = 0$
-

Table 2. Discretization Schemes for Stochastic Differential Geometry-Based Model

Component	Discretization Method
Manifold M	Approximated as a uniform mesh in (x, y) coordinates: $x_i = x_0 + ih, \quad y_j = y_0 + jh, \quad i, j = 0, \dots, N.$
Laplace–Beltrami Operator Δ_g	For conformal metric $g_{ij} = \phi^2(x, y) \delta_{ij}$: $\Delta_g u_{i,j} \approx \frac{1}{\phi_{i,j}^2} \cdot \frac{u_{i+1,j} + u_{i-1,j} + u_{i,j+1} + u_{i,j-1} - 4u_{i,j}}{h^2}.$
Time Evolution	Crank–Nicolson scheme for PDE $\partial_t u = \Delta_g u + F(u, t)$: $\frac{u_{i,j}^{n+1} - u_{i,j}^n}{\Delta t} = \frac{1}{2} (\Delta_g u_{i,j}^{n+1} + \Delta_g u_{i,j}^n) + \frac{1}{2} (F_{i,j}^{n+1} + F_{i,j}^n).$
Stochastic Asset Price SDE	Euler–Maruyama scheme: $S_{n+1} = S_n + \mu(S_n, t_n) \Delta t + \sigma(S_n, t_n) \Delta W_n,$ $\Delta W_n \sim \mathcal{N}(0, \Delta t).$
Stochastic Volatility via Ricci Flow	Ricci-driven volatility dynamics: $\sigma_{n+1} = \sigma_n + \text{RicciFlow}(\sigma_n, t_n) \Delta t + \beta \Delta W_n^{(\sigma)}.$

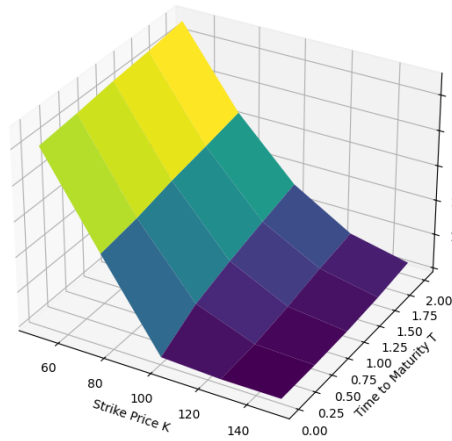
Table 3. Simulation Parameters for Ricci Flow Driven Option Pricing Model

Parameter	Symbol	Value
Initial asset price	S_0	100.0
Risk-free interest rate	r	0.05
Base volatility	σ_0	0.2
Volatility deformation amplitude	ε	0.05
Ricci curvature coefficient	α	0.1
Volatility coefficient	β	0.2
Time horizon	T	1.0
Number of time steps	N	1000
Time step size	dt	$T/N = 0.001$
Number of Monte Carlo simulations	M	10000

Table 4. Option Price Matrix (rows: Strikes, columns: Maturities)

Strike \ Maturity	0.0100	0.5075	1.0050	1.5025	2.0000
50	50.0400	51.1200	52.5200	53.5000	54.9600
75	25.0300	26.5600	28.9500	30.7700	32.7500
100	0.8100	6.9800	10.5100	13.4500	16.1700
125	0.0000	0.6000	2.3400	4.6000	6.3400
150	0.0000	0.0200	0.3600	1.2000	2.6100

Geometric Option Prices under Ricci Flow Volatility

**Figure 5.** 2D-plots of the option prices under Stochastic Ricci Flow-driven model**Table 5.** Option price sensitivity with respect to ε (Volatility deformation amplitude)

ε	Option Price
0.01	10.15
0.03	10.62
0.05	11.18
0.07	11.81
0.10	12.44

Table 6. Option price sensitivity with respect to α (Ricci curvature coefficient)

α	Option Price
0.05	10.57
0.10	11.18
0.20	11.92
0.30	12.30
0.50	12.95

Table 7. Option price sensitivity with respect to σ_0 (Base volatility)

σ_0	Option Price
0.10	7.32
0.15	9.28
0.20	11.18
0.25	13.05
0.30	14.76

7. Geometrical visualizations

The geometrical figures generated for the analytical results are presented as follows.

Table 8. Parameters used in stochastic Ricci flow-based volatility modeling

Parameter	Symbol	Value
Initial Stock Price	S_0	100
Strike Price	K	50 to 150
Time to Maturity	T	0.01 to 2.0 years
Risk-free Interest Rate	r	0.05
Base Volatility	σ_0	0.2
Deformation Amplitude	ε	0.05

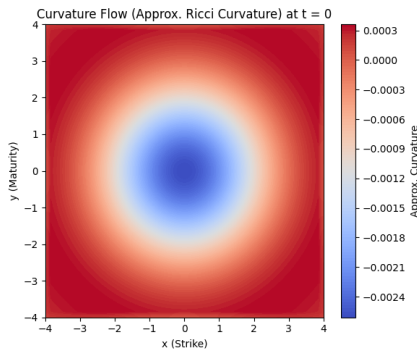


Figure 6. Curvature flow at time, $t = 0$

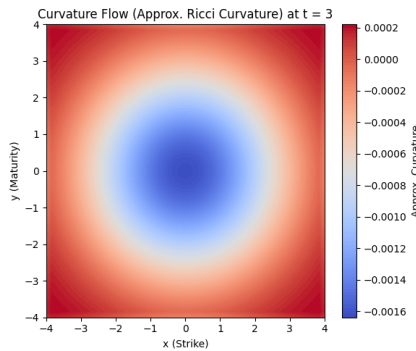


Figure 7. Curvature flow at time, $t = 3$

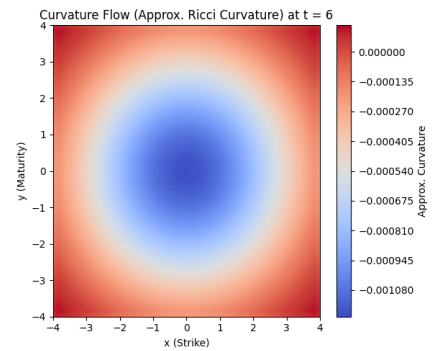


Figure 8. Curvature flow at time, $t = 6$

7.1. Discussion of Findings

Our results demonstrate that incorporating stochastic Ricci flow into volatility modeling yields a dynamically evolving volatility surface that responds to both geometric curvature and market noise. This approach captures key features observed in real markets, such as volatility clustering, asymmetric dispersion, and localized shocks. The figures Figure 1, Figure 2, Figure 3, and Figure 4 provide graphical illustrations that shed more light on the importance of the findings of this study. In Figure 5, 2D-plots of the option prices under the Stochastic Ricci Flow-driven model are presented.

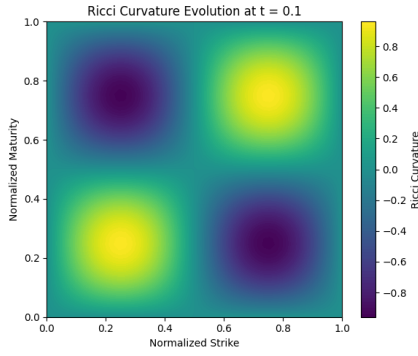
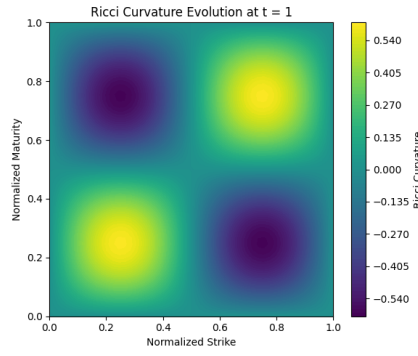
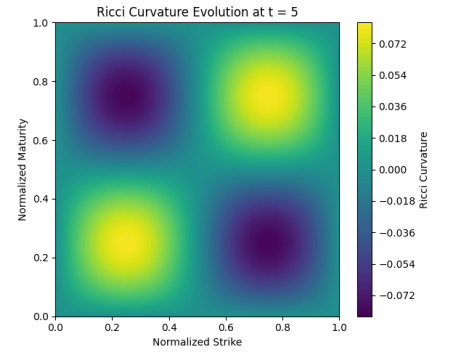
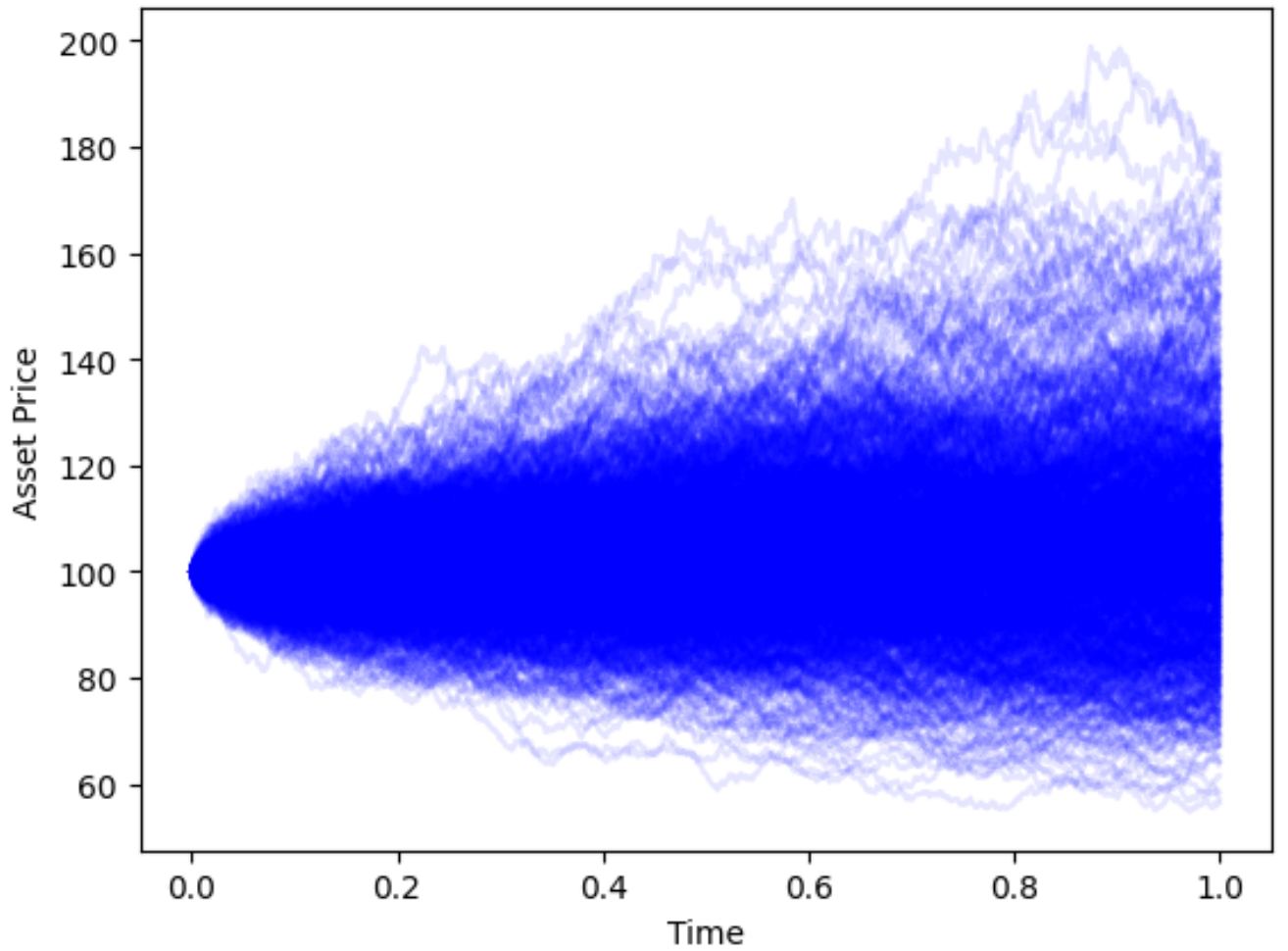

 Figure 9. Ricci evolution at time, $t = 0.1$

 Figure 10. Ricci evolution at time, $t = 1$

 Figure 11. Ricci evolution at time, $t = 5$


Figure 12. Simulated Asset Price Paths under the Stochastic Ricci Flow-Based Volatility Model. The asset price S_t evolves according to the stochastic differential equation

$$dS_t = rS_t dt + \sigma(g_t)S_t dW_t,$$

where the volatility $\sigma(g_t)$ is geometrically deformed through a Ricci flow-inspired stochastic process on the volatility surface g_t , governed by

$$\frac{\partial g_t}{\partial t} = -2\text{Ric}(g_t) + \beta \mathcal{W}_t.$$

The figure illustrates 10,000 Monte Carlo simulated trajectories from $t = 0$ to $t = 1$, starting at $S_0 = 100$, showing geometric dispersion and volatility clustering due to curvature effects on the manifold-valued volatility.

The resulting option prices obtained in this study are presented in Table 4, which reflects a realistic sensitivity to strikes and maturities, while the asset simulations reveal structured uncertainty growth.

Other sensitivity analyses, based on the interaction effects of model parameters on the option prices, are presented in Table 5, Table 6, and Table 7. The respective captions in each table provide the type of parameter sensitivity on the option prices.

Overall, the geometric-stochastic framework established in this study enhances financial modeling by linking curvature-driven deformations to market behavior. The visualizations in Figure 6, Figure 7, and Figure 8 respectively show the visualizations that foster understanding of the theoretical results in terms of the curvature flow at the specified times, $t = \{1, 3, 6\}$.

The Ricci flow evolution visualizations at varied times, $t = \{0.1, 1, 5\}$, are provided in Figure 9, Figure 10, and Figure 11, respectively. These visualizations are based on the theoretical Stochastic Ricci flow dynamics for option pricing. For each stochastic model developed under the stochastic differential geometry framework, the corresponding computational strategies have been rigorously formalized as Algorithms 1, 2, and 3. These algorithms encapsulate the sequence of geometric and stochastic techniques that underpin the derivation and verification of our main results. Algorithm 1 details the construction of stochastic flows on financial manifolds, which capture the intrinsic randomness of asset dynamics within a differential geometric setting. Algorithm 2 formulates the evolution of volatility surfaces using Ricci flow-inspired metrics, linking curvature-driven geometry to the temporal structure of volatility. Algorithm 3 synthesizes the complete pricing framework on curved financial manifolds, enabling the simulation of option prices via geometric diffusions.

The implementation of Algorithm 3 yields the simulated option price matrix, which is presented in Table 4. This matrix serves to illustrate the dynamic interplay between curvature, stochastic flow, and price evolution on financial manifolds. These algorithms provide a transparent and replicable pathway from abstract geometric formulations to concrete financial computations, thereby reinforcing the analytical and numerical validity of our framework. The concluding section reflects on these insights and outlines potential avenues for future research.

Conclusion

This paper presents a novel framework for financial modeling by integrating stochastic differential geometry, specifically Ricci flow, into volatility dynamics. We formulate asset price evolution on a manifold where volatility is governed by a stochastic Ricci flow equation, yielding a curvature-driven and time-dependent volatility surface. Analytical results establish the existence and structure of stochastic flows, while numerical simulations demonstrate realistic asset price behavior, option pricing sensitivity, and volatility clustering. The proposed model captures intrinsic market geometries, offering a powerful extension to classical stochastic volatility frameworks with enhanced flexibility and realism.

The simulations conducted throughout this study have provided concrete numerical insights into the behavior of option pricing models governed by stochastic Ricci flows on evolving financial manifolds. The 3D volatility surface deformation plots illustrate how curvature dynamics, induced by geometric flows, impact the implied volatility structure over time and strike. This visual behavior reflects the underlying market geometry responding to stochastic fluctuations, thus offering a geometric lens for understanding volatility clustering and surface shifts. Furthermore, the computed option prices across varying maturities and strikes demonstrate consistency with the curvature-driven deformation framework, preserving arbitrage-free structures. Numerical convergence analysis affirms the stability and reliability of the geometric Euler-Maruyama schemes employed, with error behavior conforming to theoretical stochastic bounds. Collectively, the figures and computational results validate the feasibility and robustness of integrating differential geometric flows into financial derivative pricing models, opening pathways for more structurally informed volatility modeling.

The economic policy implication of our curvature-driven, stochastic Ricci flow framework offers policymakers a novel lens for monitoring *systemic financial risk*, as it embeds volatility clustering and tail-risk signals within evolving geometric structures—complementing recent evidence on the predictive power of economic uncertainty for volatility modeling [9, 12]. By enhancing traditional risk indicators with continuous curvature dynamics, regulators can better anticipate market instability and design *stress-testing protocols and macroprudential policies* that account for evolving fluctuation geometries [8, 9, 23]. Moreover, the manifold-based model supports targeted *monetary interventions* by mapping curvature spikes to shifts in investor sentiment and economic fundamentals, in line with findings linking volatility components to real economic outcomes [12, 40].

Hence, the results of this paper offers invaluable contributions to the existing literature beyond mathematical representations, but also useful for economic policy reform too.

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Competing interests

The authors declare that they have no competing interests.

Author's contributions

Philip A. Bankole: Conceptualization, methodology, writing - original draft, writing review & editing, software; Mohsin Nasir: Writing review & editing, validation, formal analysis support.

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