ACTEX MFE/3F Study Manual

Spring 2012 Edition

Errata

(February 2, 2012)

1. M1-7: The equation for $E^*[S_h]$ should be $E^*[S_h] = p^*S_0u + (1 - p^*)S_0d = S_0e^{(r-\delta)h}$.

2. M2-15: The second last line of the solution to Question 7 should write

$$P(0.5 < X(20) < 1 \mid X(10) = 0.7).$$

3. M3-8: For options on currencies, the prepaid forward price is $x(t)\exp[-(r - r_f)(T - t)]$. The same change is needed for the summary table on the same page.

4. M5-14: In the second line of the solution, change $r_{ddd} = 9\%$ to $r_{ddd} = 8.90091\%$.

5. M5-17: Change the last 4 lines of the solution to:

$$P(0.093,\ 1,\ 4) = \frac{1}{1.093} \times \frac{1}{4}\left[\frac{1}{1.135}\left(\frac{1}{1.1359412} + \frac{1}{1.11}\right) + \frac{1}{1.10596}\left(\frac{1}{1.11} + \frac{1}{1.089}\right)\right]$$

$= 0.735188$

giving $r(1,\ 4) = 0.735188^{-\frac{1}{3}} - 1 = 10.7985\%$.

The year-3 yield volatility is $\frac{1}{2}\ln\frac{13.8636}{10.7985} = 12.4929\%$.

6. T2-9: In line 2, change “call option” to “asset-or-nothing call”.

7. T2-21: Change 68.25 to 68.55.

8. T3-17: Change the answer key for Question 5 to (B).

9. T3-18: The last sentence should be: “At time 0, we have –100 units of S_1, so we need $-100N = -100(0.3 \times 50) / (0.25 \times 75) = -80$.

10. T10-20: In the solution to Question 5 (line 4), the equation should be $f_z(t,z) = f_{zz}(t,z) = \exp(z - t/2)$.

11. T10-27: In the solution to Question 23, the second last line should be written as “Putting $t = 2$, $\ln P_2(2,4) = \ln P(2,4) \sim N(-0.5 - \ln(90/93),\ 0.1)$”.