

Updates and Errata for ACTEX Study Manual
Exam FM/2, 2011 Edition
May 4, 2011

Page M1-16, third line from the top

Replace: “For the constant force model, $a(t) = e^{d(t)}$,”

With: “For the constant force model, $a(t) = e^{dt}$.”

Page M4-1. Boxed Example (4.1), second paragraph.

Should read: The bond will pay a nominal interest rate of 10% ... Delete the extra occurrences of the words “interest of”.

Page M4-29, Solution to number 11.

First sentence: Replace "coupon is paid on Mar 31," with "coupon is paid on May 31".

Page M6-4, answer to exercise 6.3.

Replace 3.4729 with 3.4733

Page M7-26, Solution to number 2

In the 4th paragraph down, replace: "John must purchase 0.9756 of the 6-month bond and 0.9565 of the 12- month bond." with: "John must purchase 0.9565 of the 6-month bond and 0.9756 of the 12- month bond."

Page IT2-5, Solution to number 2.

Replace:

$$1046.4280 = \frac{70}{(1+i)} + \frac{70}{(1+i)^2} + \frac{70}{(1+i)^3} + \frac{70}{(1+i)^4} + \frac{70}{(1+i)^5}$$

With:

$$1046.4280 = \frac{70}{(1+i)} + \frac{70}{(1+i)^2} + \frac{70}{(1+i)^3} + \frac{70}{(1+i)^4} + \frac{1070}{(1+i)^5}$$

Page IT2-7, Solution to number 11, second line of equations.

Replace both occurrences of '0.08' with '0.07'.

Page M10-17.

The final number at the bottom of the page should be .23, not .13

Page M10-28.

Delete the words “buy index” from the box in the middle of the page.

Page M10-34.

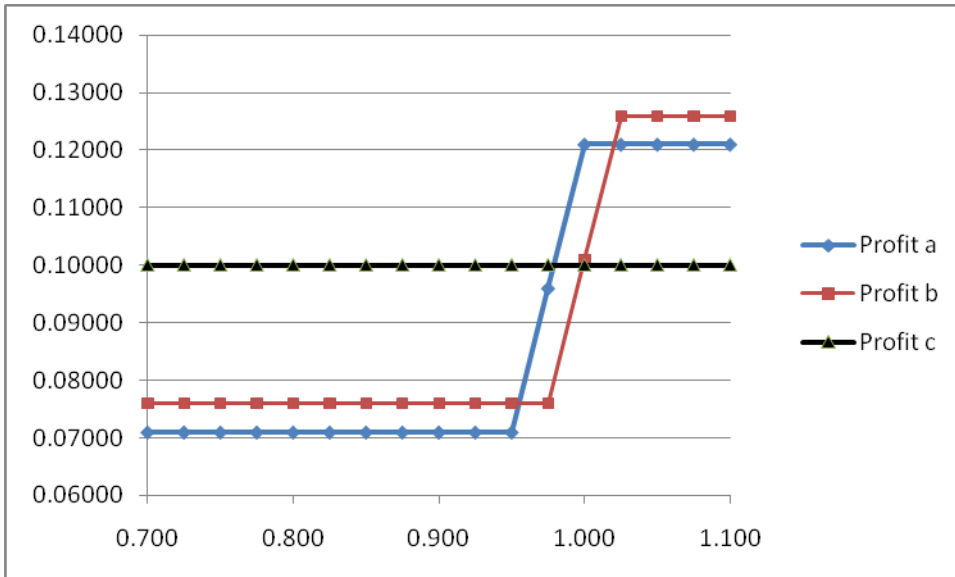
Change answer 3 in Problem 3 to -52.81.

Page M11-17.

Replace the solution to Problem 4.5 by

Call Strike	1.0000	1.0250	1.0500
Call Premium	0.0376	0.0274	0.0194
Put Strike	0.9500	0.9750	1.0500
Put Premium	0.0178	0.0265	0.0665
Cost	-0.0198	-0.0009	0.0471
FV Cost	-0.0210	-0.0010	0.0500

Price	Profit a	Profit b	Profit c
0.700	0.07102	0.07596	0.09999
0.725	0.07102	0.07596	0.09999
0.750	0.07102	0.07596	0.09999
0.775	0.07102	0.07596	0.09999
0.800	0.07102	0.07596	0.09999
0.825	0.07102	0.07596	0.09999
0.850	0.07102	0.07596	0.09999
0.875	0.07102	0.07596	0.09999
0.900	0.07102	0.07596	0.09999
0.925	0.07102	0.07596	0.09999
0.950	0.07102	0.07596	0.09999
0.975	0.09602	0.07596	0.09999
1.000	0.12102	0.10096	0.09999
1.025	0.12102	0.12596	0.09999
1.050	0.12102	0.12596	0.09999
1.075	0.12102	0.12596	0.09999
1.100	0.12102	0.12596	0.09999



Page M12-10, second and third lines from the bottom.

There is a missing T in the expressions which should read $e^{rT} S_0 e^{-dT}$ and were erroneously given as $e^r S_0 e^{-dT}$.

Page M12-14, last paragraph.

Change the page reference to page 135.

Page M12-25.

The first boxed formula should read $F_{0,T}^P = S_0 - \overset{n}{\underset{i=1}{\overset{\circ}{a}}} d_i e^{-rt_i}$

Page MT3-4 Problem 12

The investor buys the 29 strike put and the 39 strike **call** to create a strangle.

Page MT3-5 Problem 13

At-the-money put and call prices are reversed. At-the-money 3-month put and call options are available at prices of 1.693 and 1.988 respectively.

Page MT3-7 Problem 20 The I interest rate ($r=.03$) is not given.

Page PE1-4. Problem 24.

Final sentence of the question should begin with “If the **annual** interest rate **compounded continuously** is $r=.04\dots$ ”

Page PE9-16 - Solution to problem 13 – Last few paragraphs.

REPLACE:

“Daniels total interest paid is now the difference of the first 48 payments plus the last 360 payments and the refinance cost minus the original loan amount.

$$1,289.42(48) + 1,002.84(360) + 4,000 - 204,000 = 222,914.56$$

$$\text{Daniel saved } 260,191.20 - 222,914.56 = 37,276.64$$

Answer: A”

WITH:

“Daniels total interest paid is now the difference of the first 48 payments plus the last 360 payments minus the original loan amount.

$$1,289.42(48) + 1,002.84(360) - 204,000 = 218,914.56$$

$$\text{Daniel saved } 260,191.20 - 218,914.56 = 41,276.64$$

Answer: C”

Page PE11-2, question 7

The second sentence should read: The following **3-month** option prices and strike prices are given.