

Updates and Errata for ACTEX Study Manual
Exam FM/2, 2011 Edition
March 1, 2012

Page M1-16, third line from the top

Replace: "For the constant force model, $a(t) = e^{\delta(t)}$,"

With: "For the constant force model, $a(t) = e^{\delta t}$."

Page IT1-1, Question 3.

Replace answer "D) 188" with "D) 183".

Page IT1-3, Question 3 solution.

The last 2 lines of the solution prior to the answer should read:

"This is the present value. The future value immediately after the last payment at time 39 would then be $FV = PV(1.03)^{39} = 57.6803(1.03)^{39} = 182.6751$."

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 M9-23. Line 2.

Should read: Graph of purchased **call** option payoff and profit.

Page M10-5. Last paragraph.

Drop the old first sentence in bold. The new first sentence should be. **Note what happens if the value of the stock drops.**

Page M11-16, solution to problem 4.3.

To be consistent in our use of terminology, in the third line of the table at the top of the page, the word cost should be replaced by FV Cost.

Page M12-3.

Line 7 should read: There are 3 ways to derive the correct **prepaid forward** price for a stock with no dividends.

Two lines below this we need:you will have the same position **with a prepaid forward** at time T...

Page M14-2. Third paragraph, first sentence.

Delete the words "per barrel".

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 interest rate ($r=.03$) is not given.

Page MT3-13, Question 14 solution.

Answer is 0.01, but this is choice B, not A as stated.

Page PE3-3, Question 11

Replace: "A woman buys a 10-year 1000 par bond with 7.0% semi-annual coupons." with: "A woman buys a 10-year 1000 par bond with 7.0% semi-annual coupons priced at 1000."

Page PE10-11. Problem 35

Change the current share price to 3.

Page PE10-18, solution to question 14

In the 4th paragraph, replace "present value of a perpetuity due" with "present value of a perpetuity immediate".

Page PE10-27. Solution to Problem 35

Last line. The value of PV should be 30,913.64

Page PE11-3, Question 10

This should read "...each subsequent dividend will be 0.75% higher than the previous dividend.

Page PE11-4, Problem 13

Last sentence should be: What is the level price for a commodity swap for 30 ounces each year?

Page PE11-13. Solution to Problem 7

The graph legends should read first "Straddle write" for the dashed line and then "Strangle write" for the solid line.