ACTEX IFM Study Manual.'Uwo o gt '423:

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Errata

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M1-29, line −2 of Example 1.2.1: $R_P = 52\%$

M1-33, Example 1.2.2 Solution: (a) $\text{Var}(R_P) = 0.097669$, the volatility is 31.252%
  (b) $\text{Var}(R_P) = 0.069873$, the volatility is 26.434%

M1-40 paragraph -3 line 3: each of the stocks in the market, … each of the <u>s</u>tocks in

M1-46 #8: 1st line: $20 \times 75 = \underline{1500}$, 2nd line: would be <u>2200</u>. He can then purchase <u>110</u> shares of B. 3rd line onward:

$$x_A = \frac{-1500}{700} = -\frac{15}{7}, \ x_B = \frac{2200}{700} = \frac{22}{7}$$

The mean return is $-\dfrac{15}{7} \times 0.14 + \dfrac{22}{7} \times 0.1 = 1.4286\%$.

$$\text{Var}(R_P) = \left(-\frac{15}{7}\right)^2 \times 0.3 + 2 \times \left(-\frac{15}{7} \times \frac{22}{7}\right) \times 0.12 + \left(\frac{22}{7}\right)^2 \times 0.15 = 1.242857$$

The volatility is $1.242857^{0.5} = 111.4835\%$.

M1-61, the line preceding Q12: change to "... of firms 1 and 3, and 50% of firm 2."

M2-5 Example 2.1.3 line 2: Assuming that the firm has a debt beta of <u>0.01</u> and …

M2-12 #15 first line: change to "A firm has 30 million shares outstanding"

M2-13 #3 last line: change to "Hence YTM = 4.585%."

M2-15 #15: $r_{wacc} = 0.225 - \dfrac{120}{720} \times 0.07 \times 0.4 = 22.03\%$

M3-25, Example 3.2.2: "(b) Suppose that you observe a 6-month <u>prepaid</u> forward price of 98…"

M5-16 Ex 5.19 solution line 4: Since $a\sigma\sqrt{T}Z \sim \text{N}(0, a^2\sigma^2 T)$, by (5.1.2) we have
  $\text{E}[e^{a\sigma\sqrt{T}Z}] = e^{a^2\sigma^2 T/2}$. line 5: Change $e^{a\sigma^2 T/2}$ to $e^{a^2\sigma^2 T/2}$

M7-25 Ex 18 solution: $E = 30$, $D = 0$, $E^* = 25$, $D^* = 5$, $V = 500 \times 15 = 7500$.
  The amount in equity is $\dfrac{E}{E^*} \times V = \dfrac{30}{25} \times 7500 = 9000$.

The amount of debt is $7500 - 9000 = -1500$.
So Phil should borrow $\$1500$ at 4% to purchase an additional 100 shares of Google's equity (which is worth 1500).

T1-6 #12, for all choices, insert "synthetic" before the first "forward", and delete "synthetic" that appears before the second "forward".

T2-2 #3 line 5: change 150 to 510.

T3-14 #28: change (iii) to "$u = e^{0.15}$ and $d = 1/u$"