

ACTEX MFE Study Manual

July 2017 Edition

Errata

March 31, 2017

M1-18 Solution to #2:

The second sentence should read “The profit is $10 \times 99.6 - 10 \times 100.4 = -8$.”

M1-28 Solution to Example 1.2.4 (c):

The "Cost at time 0" for "Lend 1100 at 5% for 6 months" should be 1100 instead of -1100 .

M1-40 Solution to #7:

Answer: (B)

$$E(S) = 750 \times 0.2 + 850 \times 0.5 + 950 \times 0.3 = 860.$$

If the jeweler does not use forward to lock in the future selling price of gold, the profit is $E(700 + 0.2S - S) = 700 - 0.8 \times 860 = 12$.

If a forward is used, then the jeweler would pay 850 at time 1 to obtain gold. The profit is $700 + 0.2 \times 850 - 850 = 20$.

The expected profit is increased by 8.

M1-49 Solution to Example 1.3.3:

The correct equation should be “Profit = $-60 + 40 \times 1.03^2 = -17.564$.”

M1-67:

Change Option (E) to: "Long a put with strike 8.60 and short a **call** with strike 8.80".