

## Errata for 1<sup>st</sup> Edition of Vol. 2 of Exam FM/2 Manual

(Our special thanks go to Takehiro Kumazawa for reporting many of the following errata.)

(Last updated 5/16/08)

- [9/23/07] Page 9, footnote. For greater clarity, delete the first 4 sentences and replace by the following sentence: *“In a Dutch auction, a potential buyer bids the maximum price he is willing to pay and a potential seller bids the minimum price she is willing to accept.”*
- [5/15/07] Page 18, solution to Q. 12. The solution is correctly shown as 36% but the answer code should be (C), not (B).
- [4/25/07] Page 18, solution to Q. 13, 3<sup>rd</sup> line. On the right-hand side of the equation, 1,980 should be 1,910. The correct value is used in the rest of the solution.
- [1/13/08] Page 19, last line. The answer to Q. 13 is **(B)**, not (C).
- [4/25/07] Page 37, Q. 7. The premium for the 125-strike call is \$16.86, not \$16.56. The correct value is used in the solution.
- [4/25/07] Page 48, 3<sup>rd</sup> line. Should be  $10,000 - D - P = 7,900$ , not 6,900, so  $D + P = 2,100$ , not 3,100. This has no effect on the final answer.
- [4/25/07] Page 52, solution to Example 1. Should say that Profit = *forward price* – spot price at expiration.
- [4/25/07] Page 69, last line of solution to Example 1c.  $S_B = \$83.08$ , not \$83.88.
- [9/23/07] Page 72, “Cost” column of table. As noted by the last sentence on page 71, the finance “cost” is actually a credit (i.e., a negative cost). Thus, \$93.24 in the table on page 72 should have a negative sign. The “Profit” column is computed by subtracting -\$93.24 from the payoff, i.e., by adding \$93.24 to the payoff. *[Note: An erratum dated 4/25/07, which has been deleted from this list, incorrectly referred to page 74 for this correction.]*
- [4/25/07] Page 76, 1<sup>st</sup> line. Should say “and you receive the *put* premium as the writer of the *put*”.
- [4/25/07] Page 77, Q. 6 and page 80, solution to Q. 6. The problem should say that the risk-free interest rate is 5% **compounded quarterly**. At the end of the 3<sup>rd</sup> line of the solution, the computation should be  $(2.30)(1.0125) = 2.33$ .
- [5/15/07] Page 79, solution to Q. 2, 8<sup>th</sup> line. Delete the negative sign in front of  $\max[0, S - 48]$ .
- [9/23/07] Page 88, “Ratio Spreads” at the bottom of the page. Different textbooks and other references designate the ratio spread in this example as being either a 1:2 or a 2:1 ratio spread. Hopefully, any problem on the exam will not use this form (m:n) to describe a ratio spread, because it is ambiguous.
- [9/23/07] Page 90, 4<sup>th</sup> line under “Strangles”. The first word should be **payoff**, not profit.
- [9/23/07] Page 92, entry for “Ratio Spread”. Delete “(This is a 1:2 ratio spread.)”. See the comment above for page 88.

- [5/16/08] **Please note that there were previous posts on 1/13/08 for pages 94 and 95 that referred to spot prices at expiration of 100 and 110, rather than the correct spot prices of 110 and 120. The correct spot prices at expiration are shown in the following posts:**
- [5/16/08] Page 94, Q. 5. See comment above for page 88. Change the question to read as follows: “A ratio spread using 90-strike and 110-strike options, with a payoff of 20 at a spot price at expiration = 110, and a payoff of 0 at a spot price at expiration = 120.”
- [5/16/08] Page 95, solution to Q. 5. Change the solution to read as follows: “A ratio spread is constructed by buying and selling unequal numbers of options at different strike prices. In order to get a payoff of 20 at a spot price at expiration of 110 and a payoff of 0 at a spot price at expiration of 120 using 90-strike and 110-strike options, we have to buy one 90-strike call option and write three 110-strike call options. The net premium paid for this combination is  $21.46 - 3 \times 11.33 = -\$12.53$ .”
- [4/25/07] Page 95, solution to Q. 8, end of 2<sup>nd</sup> line. Should say 120-strike call, not 110-strike.
- [4/25/07] Page 100, 2<sup>nd</sup> and 3<sup>rd</sup> full paragraphs. These paragraphs should have referred to the **combination** of an unhedged doodad and each of the 3 puts.
- [4/25/07] Page 101, footnote 4 at the bottom of the page. (1) and (3) intersect at a price of \$108.44, not \$101.56.
- [5/15/07] Page 104, last line of 2<sup>nd</sup> paragraph under table at the top. \$3.74 should be \$3.70. The Profit column in the following table should be corrected by adding \$.04 to each value in this column. \$3.74 in the footnote to this table should be \$3.70.
- [4/25/07] Page 110, solution to Q. 6, lines 1 and 2. “Call option” should be “put option”.
- [4/25/07] Page 123. There are several typos on this page. In the 2<sup>nd</sup> full paragraph, the value in the 4<sup>th</sup> line should be .99934268, not .999364268. In the same paragraph, last line, the value should be \$1,250, not \$2,500. In col. [3] of the table, the entry for Day 0 should be .99934268 and in col. [4] of the table, the entry for Day 1 should be +1,249.18.
- [5/15/07] Page 125, Q. 2. The dividend rate should be 5%, not 4%.
- [1/13/08] Page 125, Q. 6. Change to “Dodi goes long a 6-month futures contract ...” (to clarify that Dodi takes the long position).
- [1/13/08] Page 127, Section 10a, 3<sup>rd</sup> line. “**1,000** units”, not “1.000 units”.
- [9/23/07] Page 130, equation in the middle of the page. The 2<sup>nd</sup> term should be  $X/1.045^2$ , not  $X/1.0452$ .
- [1/13/08] Page 133, last line. Should be  $f_2 = 1.05^3 / 1.045^2 - 1 = 6.0072\%$ .
- [4/25/07] Page 140, solution to Q. 1, last line. The denominator of X should be 2.79853 and the answer should be \$109.73, not \$108.55. Answer choice (B) on page 139 should be changed to \$109.73 and the answer should be given as (B), not (A).