

Errata and updates for ASM Exam MFE/3F (Fifth Edition) sorted by page

Note: Practice exam question 4:2 is defective and not easily repaired. Practice exam questions 7:2, 7:10, 9:12, 10:7, and 10:19 are corrected below.

- [12/27/2008] On page x, in the last sentence of the second paragraph, add the word “not”: “. . . is not indicative of future exams.”
- [7/2/2009] On page xi, on the third line of the first paragraph of “Rounding Rules with the normal distribution”, change 0.8859 to 0.8860.
- [3/4/2009] On page 7, on the second line from the bottom, replace “below K_1 or above K_3 ” with “below K_3 or above K_1 ”.
- [6/3/2009] On page 8, the first sentence of the second paragraph under “Collars” is a little unclear, and should be replaced by:

A collar’s payoff increases as the price of the underlying stock decreases below K_2 and decreases as the price of the underlying stock increases above K_1 . Between K_2 and K_1 , the payoff is flat.

- [11/22/2009] On page 22, in the solution to quiz 1-3, on the first displayed line, change e^{-rt} to e^{-rT} .
- [11/22/2009] On pages 26-28, in all displayed equations, the last argument of P and C should be $T - t$ instead of T . This affects ten T ’s, five on page 26, two on page 27, and three on page 28.
- [2/15/2009] On page 35, on the third line from the bottom, change capital T in $C(S, K_2, T)$ to lower-case t . Also, interchange K_1 and K_3 , so that the formula reads $C(S, K_2, t) \leq aC(S, K_3, t) + bC(S, K_1, t)$.
- [4/29/2009] On page 37, on the fourth line of Subsection 2.4.2, replace the word “stock” with “strike”.
- [1/19/2009] On page 40, replace the paragraph of exercise 2.10 after the enumerated list with

To exploit the mispricing, you sell three 40-strike put options, buy one 30-strike put option, and buy two synthetic 45-strike put options created using appropriate amounts of 45-strike call options, shares of stock, and risk-free bonds.

- [7/20/2009] On page 41, in the solution to exercise 2.8, on the third line, change 70-strike to 75-strike.
- [1/17/2009] On page 42, in the solution to exercise 2.8, on the second and third displayed lines, reverse the inequalities:

$$65x - 75y \leq 500$$

$$13x - 15y \leq 100$$

- [1/7/2009] On page 43, in the solution to exercise 2.11, change $C(50, 40, 0.5)$ to $C(50, 48, 0.5)$.
- [3/19/2009] On page 45, on the last line, change 50-strike to 60-strike.
- [2/7/2009] On page 52, in the answer to Example 3A, on the third line, replace “put pays 35” with “put pays 20”. On the last two lines of the page, put stars on the p_1 ’s and p_2 ’s on the left-hand side, i.e., $130p_1^* + 100p_2^* + \dots$ and $150p_1^* + 110p_2^* + \dots$.
- [11/22/2009] On page 54, 3 lines from the end of the answer, change ds to dS .
- [1/6/2010] On page 72, on the line below the table, change “ending call” to “ending put”.
- [8/26/2009] On page 78, on the first line, remove one of the two equal signs after F_u .
- [7/28/2009] On page 80, in exercise 4.1, on the first line, delete “based on forward rates,”.

- [11/22/2009] On page 93.17, in the caption of Figure 4.11, change Binary to Binomial.
- [11/22/2009] On page 93, in the solution to exercise 4.18, the fourth word should be “is”.
- [1/20/2009] On page 105, in the table for Example 5B, interchange the headings “Low state” and “High state”.
- [5/3/2009] On page 106, on the last displayed line of the page, change $\frac{Q_L}{p}$ to $\frac{Q_L}{1-p}$.
- [3/17/2009] On page 113 in the solution to exercise 5.13, on the fourth line, replace $U_H = \left(\frac{2}{3}\right)\left(\frac{7}{13}\right)U_L$ with $U_H = \left(\frac{3}{2}\right)\left(\frac{7}{13}\right)U_L$. However, a simpler solution to the exercise is

The current value of a risk free investment is $Q_H + Q_L$, so $Q_H + Q_L = e^{-0.10}$. So by equation (5.6),

$$0.6 = \frac{0.65U_H}{Q_H + Q_L} = 0.65U_H e^{0.10}$$

$$U_H = \frac{0.6}{0.65} e^{-0.10} = \boxed{0.83523}$$

- [12/14/2009] On page 119, on the sixth line of the “Lognormal tree” paragraph, change σh to $\sigma \sqrt{h}$.
- [9/6/2009] On page 123, on the line “**Additional released exam questions**”, change “Sample:6” to “Sample:17”.
- [2/18/2009] On page 142, in the solution to exercise 7.9, right before the displays, change £1 to \$1.
- [8/18/2009] On pages 142–143, the solution to exercise 7.12 is incorrect. The correct solution is

The futures period affects the forward price of the stock but does not affect the option price in any other way.

$$d_1 = \frac{\ln(90e^{-0.06}/90e^{-0.06}) + 0.5(0.3^2)}{0.3}$$

$$= \frac{0.045}{0.3} = 0.15$$

$$d_2 = 0.15 - 0.3 = -0.15$$

$$N(d_1) = N(0.15) = 0.5596$$

$$N(d_2) = N(-0.15) = 0.4404$$

$$C(F, 90, 1) = 90e^{-0.06}N(0.15) - 90e^{-0.06}N(-0.15) = \boxed{10.10}$$

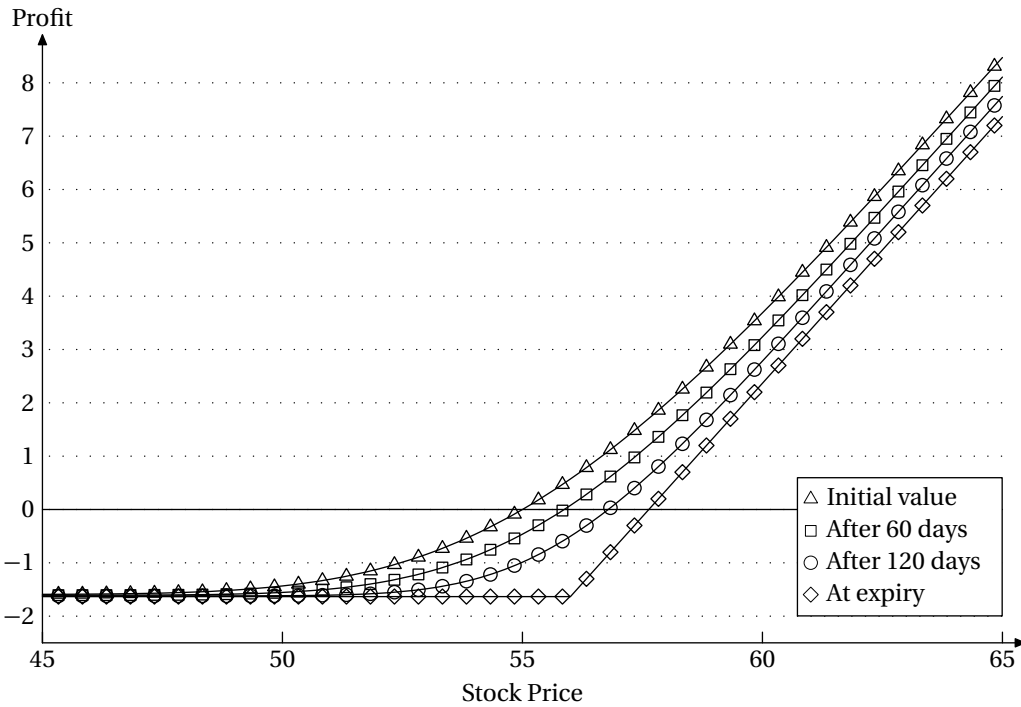
- [3/18/2009] On page 151, replace the fourth word of the page “if” with “it”.
- [4/5/2009] On page 151, on the third displayed line before the end of Subsection 8.1.1, the line for d_2 , change $(0.2)(0.25)$ to $0.2 \sqrt{0.25}$.
- [12/14/2009] On page 152, on the second line (in Ke^{-rt}) and third line (in $Se^{-\delta t}$), change t to T .
- [3/25/2009] On page 152, on the 5th displayed line, move T inside the brackets:

$$d_1^2 + \sigma^2 T - 2 \left(\ln S - \ln K + (r - \delta + \frac{1}{2}\sigma^2)T \right)$$

- [4/26/2009] On page 155, in the last sentence of the second full paragraph, change “there is a graph of a put option even more out of the money” to “there is a graph of a put option even more in the money”.
- [3/19/2009] On page 157, on the line before the displayed equation, change ρ to r .
- [1/23/2010] On page 172, although the solution given to exercise 8.19 is mechanically correct, the information given is impossible, since delta for a put option should decrease, not increase, as an option is more in-the-money.

[5/21/2009] On page 176, in the solution to exercise 8.14, on the second line, there should be a minus line at the start of the line, before 0.3053.

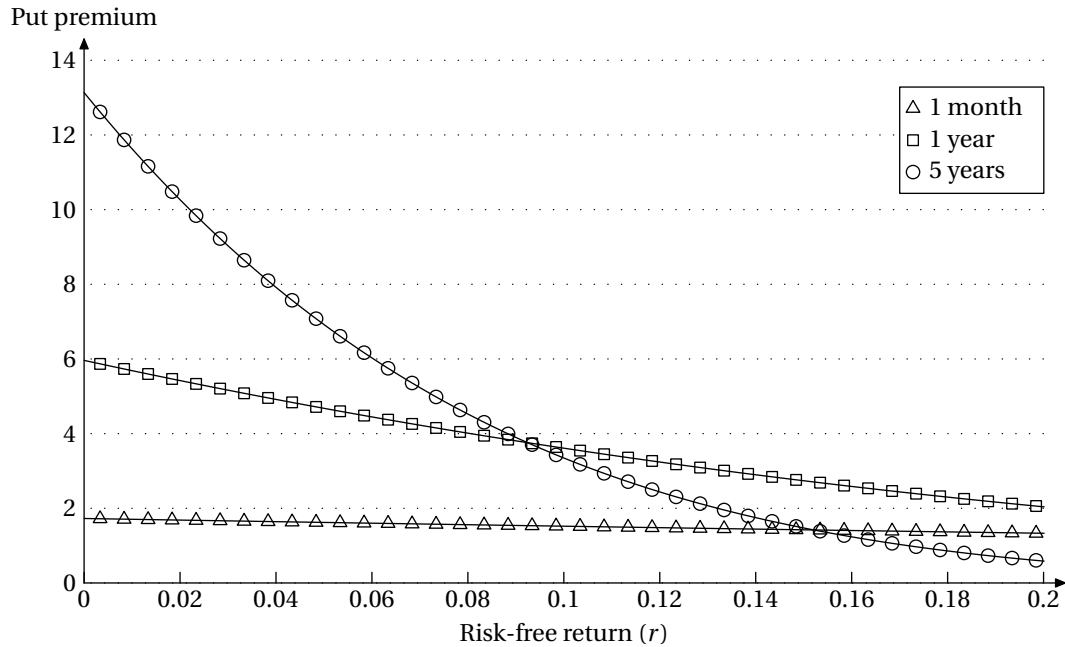
[12/5/2009] On page 184, Figure 11.2 is incorrect. The correct figure is



[12/27/2008] On page 187, the formula on the last line of the page is missing a division by h and should read

$$\sigma(S_t, X_t, t) = \sqrt{\lim_{h \rightarrow 0} \text{Var}[\ln(S_{t+h}/S_t)]/h}$$

[12/5/2009] On page 159, in Figure 8.14, the vertical scale should be multiplied by 40. The correct figure is



[2/22/2009] On page 189, the solution to Example 9E is incorrect. The correct solution is

For all options:

$$d_1 = \frac{\ln(50/50e^{0.04t}) + 0.04t + 0.5\sigma^2t}{\sigma\sqrt{t}} = 0.5\sigma\sqrt{t}$$

$$d_2 = 0.5\sigma\sqrt{t} - \sigma\sqrt{t} = -0.5\sigma\sqrt{t} = -d_1$$

$$C(S, K, t) = 50N(d_1) - 50e^{0.04t}e^{-0.04t}N(-d_1)$$

$$= 50N(d_1) - 50(1 - N(d_1))$$

$$= 100N(d_1) - 50$$

For a 3-month option, $t = 0.25$.

$$100N(d_1) - 50 = 4.21$$

$$N(d_1) = 0.5421$$

$$d_1 = 0.11$$

$$0.5\sigma\sqrt{0.25} = 0.11$$

$$\sigma = \boxed{0.44}$$

For a 1-year option, $t = 1$.

$$100N(d_1) - 50 = 6.83$$

$$N(d_1) = 0.5683$$

$$d_1 = 0.17$$

$$0.5\sigma = 0.17$$

$$\sigma = \boxed{0.34}$$

For a 2-year option, $t = 2$.

$$\begin{aligned} 100N(d_1) - 50 &= 8.79 \\ N(d_1) &= 0.5879 \\ d_1 &= 0.22 \\ 0.5\sigma\sqrt{2} &= 0.22 \\ \sigma &= \boxed{0.311} \end{aligned}$$

- [2/4/2009] On page 190, in the first paragraph after the answer to Example 9E, in the fourth sentence, change “An in-the-money option has lower” to “An in-the-money call option has higher”. Increasing the strike price tends to put a call option out of the money.
- [3/3/2009] On page 191, on the second line, change $S(t - 1)h$ to $S_{(t-1)h}$.
- [3/8/2009] On page 195, in the solution to exercise 9.1, on the last two lines, change 3.309 to 3.3114. Change the final answer to -0.160 .
- [2/3/2009] On page 197, in the solution to exercise 9.7, on the third non-displayed line, delete one of the two “is”s.
- [4/5/2009] On page 205, on the third and fourth lines of the page, change 3, which appears in two places, to 12.
- [2/4/2009] On page 207, on the first line after equation (3.1), delete the word “that”.
- [8/15/2009] On page 219, in the solution to exercise 10.4, on the sixth displayed line, change $-N(d_1)$ to $-N(-d_1)$.
- [1/31/2009] On page 221, the solution to exercise 10.9 is incorrect. The correct solution is

This is really a put-call parity question, but in the context of delta hedging. Let t_1 be the time the option was bought, t_2 the time it was sold, and T margin expiry. In the following lines, we calculate the factor to accumulate an investment from time t_1 to time t_2 .

$$\begin{aligned} C(S, K, t) - P(S, K, t) &= S - Ke^{-rt} \\ 4.25 - 8.50 &= -4.25 = 40 - Ke^{-r(T-t_1)} \\ 9.30 - 5.80 &= 3.50 = 50 - Ke^{-r(T-t_2)} \\ Ke^{-r(T-t_1)} &= 44.25 \\ Ke^{-r(T-t_2)} &= 46.50 \\ e^{r(t_2-t_1)} &= \frac{46.50}{44.25} = 1.05085 \end{aligned}$$

At time t_1 , the investor purchased a call and sold short 0.3 shares of stock. The investment at time t_1 was $4.25 - 0.3(40) = -7.75$. This investment is worth $9.30 - 0.3(50) = -5.70$ at time t_2 . The profit is the proceeds of -5.70 minus the original investment -7.75 accumulated at interest,

$$-5.70 - (-7.75)(1.05085) = \boxed{2.44}$$

- [12/14/2009] On page 221, in the solution to exercise 10.11, on the first line, put a period after 1.66.
- [4/26/2009] On page 222, in the solution to exercise 10.17, on the first displayed line, change $+\theta h$ on the left-hand side to $-\theta h$. On the last displayed line, change the last denominator 3.65 to 365.

- [4/12/2009] On page 224, in the solution to exercise 10.24, on the fifth displayed line, change 0.301 to 0.0301.
- [12/14/2009] On page 227, two lines below the second displayed equation, add the word “on” after “based”.
- [2/14/2009] On page 227, on the first line, the reading should be 14.1–14.4 instead of 14.1–14.3.
- [3/16/2009] On page 236, in the first paragraph of Subsection 11.4.2, add the word “early” at the end of the third sentence and after words “call option” in the fourth sentence.
- [5/20/2009] On page 237, 2 lines before the first displayed line on the page, change “strike price y ” to “strike price k ”.
- [12/14/2009] On page 237, on the last line of the page, change S_t to S_{t_1} .
- [12/6/2008] On page 247, in the solution to exercise 11.6, replace the third sentence with “The payoff is the final value minus the average of the 2 end-of-period values, but not less than 0.”
- [9/26/2009] On page 249, in the solution to exercise 11.20, on the last two lines, replace 4.896 with 4.8897 twice, and replace the final answer with 108.15.
- [9/24/2009] On page 249, in the solution to exercise 11.19, on the second to last line, replace $60 - 50 = 10$ with $0.6 - 0.5 = 0.1$.
- [4/29/2009] On page 252, in the solution to exercise 11.28, on the first line and on the last displayed line, change Ke^{-rT} to Ke^{-rt_1} .
- [2/14/2009] On page 255, on the first line, change 14.4 to 14.5.
- [12/14/2009] On page 255, paragraphs 3 and 4: McDonald defines a cash-or-nothing option as one that pays 1 if the condition is satisfied. If an option paid c , it would be considered c cash-or-nothing options.
- [4/7/2009] On page 256, on the second to last line of numbered paragraph 1, change $S_0e^{(r-\delta)t}$ to $S_0e^{(r-\delta)T}$.
- [12/6/2008] On page 258, on the 4th displayed line, change $-d_1^2$ in the second exponent to $-d_1^2$.
- [12/14/2009] On page 260, on the 3rd line of Subsection 12.2.1, add a period after “strike price”.
- [2/20/2009] On the first line of page 261, replace “of” with “are”.
- [6/13/2009] On page 263, in the answer to Example 12D part 2, in the parentheses, change -0.2646 to -0.26406 .
- [2/5/2010] On page 265, on the 1st and 2nd lines of Section 12.3, interchange “call” and “put”: “. . . you may give (for a put option) or receive (for a call option). . .”.
- [10/8/2009] On page 267, on the fourth line of the solution to Example 12G, change $e^{0.06(0.75)}$ to $e^{-0.06(0.75)}$. On the second to last line of the solution to Example 14G, change $P(S, 50e^{0.02}, 0.25)$ to $P(S, 50e^{-0.02}, 0.25)$.
- [3/4/2009] On page 268, on the first line, delete the word “are” between “and” and “appeared”.
- [8/19/2009] On page 277, in the solution to exercise 12.2, on the fourth line, change $c | S < c$ to $c | S < K$.
- [2/15/2009] On page 282, in the solution to exercise 12.22, replace all three $(100, 100, 0.75)$'s with $(95, 100, 0.75)$.
- [12/30/2009] On page 287, last line of page, note that $X(t)$ has a scaled and shifted binomial distribution. $0.5(X(t) + t)$ is binomial with the indicated parameters.
- [2/11/2010] On page 288, on the first line of Quiz 13-1, add at the end of the first sentence “with time measured in days”.
- [7/29/2009] On page 288, on the last line, the left hand side should be $X(t) - X(0)$.
- [3/31/2009] On page 289, on the 8th line of Subsection 13.1.2, replace $e^{2\mu+2\sigma^2}$ (which is the second moment of a lognormal) with $e^{2\mu+\sigma^2}(e^{\sigma^2} - 1)$.
- [1/24/2009] On page 289, one line above Example 13C, replace σ^2 with $\sigma^2 s$.

- [9/27/2009] On page 290, in the answer to Example 13C, two lines from the end, replace 0.06 with 0.6.
- [3/4/2009] On page 291, on the line before the third displayed line, change dx to dt .
- [10/17/2009] On page 291, one line below the fourth displayed line, change αy to ξy .
- [12/21/2008] On page 293, on the first line starting with (ii), replace “plus the continuous . . .” with “minus the continuous . . .”.
- [12/30/2009] On page 293, 3 lines from the bottom, $C(50, 40, 1)$ should be $C(40, 50, 1)$.
- [3/10/2009] On page 296, in exercise 13.13, delete the denominator $S(t)$ in the fraction $\frac{dS(t)}{S(t)}$.
- [2/28/2009] On page 298, in the last line of the solution to exercise 13.12, interchange 0.4641 and 0.6591:

$$P = 40e^{-0.12}(0.6591) - 40e^{-0.20}(0.4641) = \boxed{8.18}$$

- [2/9/2009] On page 299, the solution to exercise 13.15 is incorrect. The correct solution is:
The ratio $S/K = 1/1.1$, since the strike price is 1.1 times the stock price. Therefore

$$d_1 = \frac{-\ln 1.1 + [0.04 + 0.5(0.3^2)](0.25)}{0.3 \sqrt{0.25}} = -0.4937$$

$$N(d_1) = N(-0.49) = \boxed{0.3121}$$

- [4/5/2009] On page 301, one line above equation (14.1), change “calculate” to “calculus”.
- [3/15/2009] On page 305, three lines before Examples, delete the word “set”.
- [3/15/2009] On page 305, on the third line of the “Value of a zero-coupon bond” paragraph, delete the word “when” from “when $V(T) = 1$ ”.
- [3/15/2009] On page 306, on the third displayed line, delete the exponent 2 on ∂ in the numerator.
- [1/27/2009] On page 307, in Table 14.1, on the last displayed line, N_{d_2} should be $N(d_2)$.
- [12/30/2009] On page 307, in Table 14.1, 2 lines from the end, change “an” to “and”.
- [3/15/2009] On page 310, on the fourth line of the page, change “of an option” to “of a stock”.
- [9/21/2009] On page 314, two lines above equation (14.11), change $\alpha - \delta$ to $\alpha - r$.
- [5/20/2009] On page 315, on the last line of the $a = 1$ paragraph, change $e^{-\delta t}$ to $S(0)e^{-\delta T}$.
- [2/14/2009] On page 316, in Example 14O, choices (B) and (C), change the upper bounds of the two integrals in each choice from 1 to t .
- [4/2/2009] On page 317, two lines above section 14.7, add σ to the integrand: $\int_0^t \sigma e^{\lambda s} dZ(s)$.
- [5/1/2009] On page 319, in Table 14.2, in the second bullet, change the $X(0)$ inside the parentheses to $\ln X(0)$.
- [4/2/2009] On page 319, in Table 14.2, in the fifth bullet, change $dZ(t)$ in the integral to $dZ(s)$.
- [3/31/2009] On page 323, in exercise 14.18, change the left-hand sides of (i) and (ii) as follows:

$$(i) \quad dS_1(t)/S_1(t) = 0.1 dt + 0.3 dZ(t)$$

$$(ii) \quad dS_2(t)/S_2(t) = 0.02 dt - \sigma dZ(t)$$

[11/1/2009] On page 323, in exercise 14.21, change the second-to-last line to “The risk-neutral process for $S(t)$ is

$$\frac{dS(t)}{S(t)} = a dt + b d\tilde{Z}(t)$$

[12/13/2009] On page 326, in exercise 14.33, change dt to ds and $dZ(t)$ to $dZ(s)$.

[4/12/2009] On page 330, in the solution to exercise 14.16, replace the S on the last line with Q .

[12/20/2009] On page 331, in the solution to exercise 14.22, on the second line, change (14.7) to (14.10).

[1/15/2009] On page 334, in the solution to exercise 14.31, the final solution is incorrect. The last line should read

$$V = 40e^{-0.02}(0.5239) - 40e^{-0.01}(0.4404) = \boxed{3.10}$$

[9/2/2009] On page 342, lines 6–4 from the bottom, the definition of σ_i is inconsistent with McDonald. Replace these three lines with

This ratio is equal to $e^{2\sigma_i \sqrt{h}}$ in column i , where h is the amount of time since the start. σ_i is the annualized lognormal yield volatility of time i yields, which is not the same as the volatilities in Table 15.1 which are volatilities of $n - 1$ -year yields in year 1, unless the period is one year and $n - 1 = 1$, in which case the volatility of 1-year yields at year 1 is σ_1 .

[5/4/2009] On page 344.1, on the third line, change “2-year bonds” to “3-year bonds”.

[3/29/2010] On page 354, in the solution to exercise 15.8, change σ to σ_1 in the first two displayed lines.

[10/4/2009] On page 360, two lines from the bottom, insert “=” between $N(-0.01)$ and 0.4960.

[2/25/2010] On page 367, three lines above Example 17A, the sign of N is incorrect. Replace the phrase starting with is $-N$ through the parenthetical sentence with

is $N = -t_1 P(0, t_1)/t_2 P(0, t_2)$. (In other words, N is the number of bonds to buy; it is negative, so you should sell bonds.)

[4/29/2010] On page 367, the last two lines of the table in the answer to Example 17A should be

Loan	$0.904838e^{0.05/365} = 0.904962$	0.904962
Total	0.000218	0.000214

[12/30/2009] On page 369, on the first line of the second full paragraph, add “to” between “leads” and “an”.

[12/30/2009] On page 370, on the line after the 4th displayed equation, a slash is missing: $P_r(t, t, T) = -q(r, t, T)P(r, t, T)/\sigma(r)$.

[12/25/2009] On page 375, on the third line of Quiz 17-3, the interest rate risk premium is -0.05 (not 0.05). In general, the interest rate process has a negative risk premium.

[10/15/2009] On page 376, on the third displayed line, replace σ^2 with $\bar{\sigma}^2 r$.

[4/6/2010] On page 382, on the second line of the answer to Example 17I, change $e^{0.1(4)}$ to $e^{-0.1(4)}$.

[2/3/2009] On page 382, one line above Example 17J, replace “does not vary with t or T ” with “varies only with $T - t$, not with t or T individually.”

[8/30/2009] On page 383, Example 17L requires knowledge of the formula for an infinitely-lived bond under Vasicek. Note that the sample questions require knowledge of the formula for an infinitely-lived bond under CIR.

[2/14/2009] On pages 388–389, in exercises 17.11, 17.12, and 17.14, dz and dZ are the same Brownian motion.

- [9/30/2009] On page 390, the information for exercises 17.22–17.23 should also be used for exercise 17.24.
- [10/5/2009] On page 392, in the solution to exercise 17.9, on the second displayed line, put a – before $5y$.
- [4/7/2009] On page 393, in the solution to exercise 17.13, on the fourth non-display line, change “by σa ” to “by a/σ ”.
- [10/5/2009] On page 395, in the solution to exercise 17.21, on the fourth displayed line, replace $P(0.06, 0, 10)$ in the denominator with $P(0.06, 0, 2)$.
- [4/12/2009] On page 399, in the solution to Quiz 17-3, on the fourth line, delete the word “not”.
- [12/28/2009] On page 344.8, in Quiz 15-4, to make the question clearer, change the phrase “3-year. . .” to “4-year zero-coupon bonds issued at year 0”.
- [4/19/2009] On page 410, in question 5, in statement (i), change $S^{-1}(1)$ to $S(1)^{-1}$. In statement (ii) change $S^2(1)$ to $S(2)^2$. On the fourth line, change $F_{0,3}(3)(S^{0.5})$ to $F_{0,3}(S(3)^{0.5})$.
- [3/31/2010] On page 410, on the first line of question 8, change “write” to “writes”.
- [10/31/2009] On page 421, question 2 is defective and should be deleted.
- [4/14/2010] On page 439, in question 2, add after (vi):
- (vii) The strike prices of the compound options are all the same.
- [4/14/2010] On page 441, in question 10, add at the end of the first sentence “based on forward prices”.
- [5/7/2010] On page 446, in question 5(i), add “ dt ” after $0.4[0.06 - r(t)]$.
- [4/2/2009] On page 446, in question 6, change (iii) to “The continuously compounded dividend rate is 0.02.”
- [5/4/2009] On page 449, in question 16, the first two displayed lines should be

$$\frac{F_{0,T}(S(T)^2)}{S(0)^2} = 1.15315$$

$$\frac{F_{0,T}(S(T)^3)}{S(0)^3} = 1.28082$$

- [4/20/2010] On page 454, in question 12, add at the end of (iii): “Dividends are not incorporated in the index.”
- [5/13/2009] On page 458, in question 7, on the last line of the question, change 6-month to 9-month.
- [5/5/2009] On page 461, in question 15, on the first line, change “a stock” to “a nondividend paying stock”.
- [11/1/2009] On page 462, in question 19, change “futures” to “forward” in the three places the word appears. This question assumes that there are no mark-to-market adjustments on the contract. The forward contract is only settled at its expiry.
- [3/31/2010] On page 475, in the solution to question 17, on the second line, change the t in the first exponent to h .
- [4/19/2009] On page 478, in the solution to question 5, on the first line, change “(ii) and (iii)” to “(i) and (ii)”. On the second-to-last line, change $S^{0.5}$ in the numerator to $S(3)^{0.5}$.
- [5/5/2010] On page 484, in the solution to question 4, on the first line, put “ln” before $X(5)/X(0)$.
- [4/19/2009] On page 486, in the solution to question 10, on the first line, replace $\frac{S_u - S_0}{S_u - S_d}$ with $\frac{S_0 - S_d}{S_u - S_d}$.
- [5/8/2010] On page 493, in the solution to question 10, on the third line from the end, change the exponent rt_1 to $-rt_1$.
- [10/15/2009] On page 504, replace the first three words of the solution to question 19 with “The factors for”.

[5/11/2009] On page 505, in the answer key, the answer to 2 should be E.

[10/17/2009] On page 506, in the solution to question 4, replace the second and third sentences with:

The fact that the futures contract is for 2 years is extraneous, as is the dividend rate.

The last line should read

$$C(200, 180, 1) = e^{-0.05}(200(0.6772) - 180(0.5239)) = \boxed{39.13} \quad (\text{C})$$

[5/10/2009] On page 507, on the last line of the solution to question 5, multiply the expression between the equal signs by $e^{-0.09}$:

$$P - C = e^{-0.09}(0.250027(0.30) + 0.130267(0.20) + (1 - 0.25003 - 0.130267)(-0.10)) = \boxed{0.035726}$$

[10/17/2009] On page 509, in the solution to question 12, on the fourth displayed line, change the exponent on e from $(r - \delta)$ to $(r - \delta)h$.

[4/28/2010] On page 510, in the solution to question 15, replace the right side of the third displayed equation $(0.06\sigma\sqrt{t})$ with $(\ln S - \ln 55 + (r - \delta + 0.5\sigma^2)t) - (\ln 61 - \ln 55)$.

[5/13/2009] On page 514, in the solution to question 3, on the third displayed line, change the left hand side to e^{-3rs} .

[10/20/2009] On page 522, in the solution to question 5, on the first line, change $a = 0.06$ to $a = 0.4$.

[10/20/2009] On page 528, in the solution to question 20, on the first line, change $F_{0,1}[P(0, 2)]$ to $F_{0,1}[P(1, 2)]$.

[4/27/2009] On page 543, in the solution to question 15, on the first displayed line, change $+ 0.5(0.3^2)$ in the numerator to $- 0.5(0.3^2)$.

[5/14/2009] On page 547, in the solution to question 4, on the third displayed line on the page, delete 0.04 from the left-hand side denominator.

[10/17/2009] On page 549, in the solution to question 15, on the first displayed line, $F_{0,1}(Q)$ should be $F_{0,1}^P(Q)$.

[2/12/2010] On page 564, in the solution to question 25, on the second line, change $e^{-0.05}$ to $e^{-0.05/4}$.

[2/12/2010] On page 565, in the solution to question 28, on the second displayed line, change 6.98 to 8.74.