

## Errata and updates for ASM Exam MFE/3F (Ninth Edition Second Printing) sorted by page.

Note the corrections to Practice Exam 3:21.

- [12/1/2011] On page 60, on the last line of the page, change “borrow” to “lend”.
- [1/21/2012] On page 62, on the last line of the page, change  $109e^{0.1}$  to  $109e^{-0.1}$ .
- [1/13/2012] On page 99, in exercise 4.27 on the second line, change the upper-case in futures to lower-case.
- [2/21/2012] On page 266, in Example 12G(i), add “%.” after 26.
- [2/21/2012] On page 268, on the fourth line, add “%.” after 10.
- [2/21/2017] On page 271, in the introductory box for exercises 12.8 and 12.9, in (i), add “%.” after 4.
- [2/21/2012] On page 274, in exercise 12.22(iv), add “%.” after 5.
- [11/29/2011] On page 281, in the solution to exercise 12.11, on the fifth line, delete the first “is”. Put a negative sign before  $N(-d_1)$ . On the sixth line, delete one of the negative signs in the exponent of  $e^{-r}$ .
- [1/15/2012] On page 413, in the solution to exercise 17.10, on the fifth line, change “then  $Z_2$ ” to “then  $Z_3$ ”. A more accurate version of the sentence is
- ... then  $Z_3$  is a Brownian motion with variance equal to the sum of the variances of  $0.24Z_1'$  and  $0.1Z_2 \dots$

[1/17/2012] On page 419, on the second line of the answer to Example 18F, change  $\frac{d^2Z(t)}{dt^2}$  to  $\frac{d^2X(t)}{dZ(t)^2}$ .

[11/18/2011] On page 605, in some copies, question 21 is incorrect. The correct question is

For options with one year to expiry on a stock with price 48, you are given:

- (i) The price of a gap put option with target price 45 and strike price 50 is 5.10.
- (ii) The net cost of selling an asset-or-nothing put and buying 40 cash-or-nothing puts, each with strike price 45, is 1.20.
- (iii) The dividend yield is 2%.
- (iv) The continuously compounded risk-free rate is 4%.

Calculate the price of an asset-or-nothing call with strike price 45.

- (A) 29.80                      (B) 30.75                      (C) 31.70                      (D) 32.65                      (E) 33.60

[2/21/2012] On page 696, in the solution to question 15, on the last line, change  $e^{-0.04}$  to  $e^{-(0.04)^2}$ .

[11/18/2011] On page 717, in some copies, the solution to question 21 is incorrect. The correct solution is

The gap put option is 50 cash-or-nothing puts minus an asset-or-nothing put, each with strike price 45. Comparing it to the portfolio of (ii), we deduce that the value of 10 cash-or-nothing puts is  $5.10 - 1.20 = 3.90$ . Then from (ii),

$$40\text{CashPut} - \text{AssetPut} = 1.20$$

so an asset-or-nothing put is worth  $4(3.90) - 1.20 = 14.40$ . The sum of an asset-or-nothing put and an asset-or-nothing call is the asset itself delivered at expiry, so the sum of their prices is the prepaid forward price of the stock, or  $48e^{-0.02}$ , and the price of an asset-or-nothing call is  $48e^{-0.02} - 20.70 = \boxed{32.65}$ . (D)