Errata and Updates for ASM Exam MFE Flashcards Sorted by Page

[11/21/2010] On page iv, change "C/4" in the heading to "MFE/3F".

[7/15/2010] On card 12B, delete the word "sell", or replace it with the word "buy".

[5/9/2011] On card 79B, $0.5\sigma^2$ is missing from the two exponents. The first line should be

$$(S_0 e^{(\alpha-\delta-0.5\sigma^2)t-z_{(p+1)/2}\sigma\sqrt{t}}, S_0 e^{(\alpha-\delta-0.5\sigma^2)t+z_{(p+1)/2}\sigma\sqrt{t}})$$

[11/21/2010] On card 86B, the left side should be $\mathbf{E}[S_t \mid S_t > K]$.

[9/13/2010] On card 138B, in the second statement, change the first "increases" to "decreases".

[9/13/2010] On card 141F, change "stock" to "option".

[11/21/2010] On card 167B, the first slope should have a negative sign before it: $-e^{-rT}N(d_2)$.

[3/4/2011] On card 174B, on the first line, change $S_0 e^{\delta t}$ to $S_0 e^{-\delta T}$.

[11/21/2010] On card 188B, the equation should be $X(t) = X(0)e^{\alpha t+\sigma Z(t)}$.

[11/21/2010] On card 189B, the left side should be $\Pr\big(X(t)/X(0)\big)$.

[11/21/2010] On card 203B, on the first line, change $-\sigma_1 S_1/S_2$ to $-\sigma_1 S_1/\sigma_2 S_2$.

[11/21/2010] On card 206B, add $\mathrm{d}t$ to the right of the equation: $\mathrm{d}Z(t)+\dfrac{\alpha-r(t)}{\sigma}\mathrm{d}t$.

[5/18/2011] On card 234F, on the second to last line, replace $\alpha r(r,t,T)$ with $\alpha(r,t,T)$.

[5/5/2011] On card 238B, the fractions should be flipped, with T_1 on top and T_2 on the bottom:

$$N = -\frac{P_r(r,t,T_1)}{P_r(r,t,T_2)} = -\frac{P(r,t,T_2)q(r,t,T_2)}{P(r,t,T_1)q(r,t,T_1)}$$

[5/22/2011] On card 250B, the formula for $A(t,T)$ is the one that appears in McDonald, but is incorrect. The correct formula should have a minus before $0.5\sigma\phi(T-t)^2$.

$$A(t,T) = e^{-0.5\sigma\phi(T-t)^2+\sigma^2(T-t)^3/6}$$

So far, McDonald has not listed this in the errata, so you are probably not responsible for knowing that his formula is wrong.

[4/24/2011] On card 259B, the formula should be

$$P(r+\epsilon,h,T)-P(r,0,T) = \Delta\epsilon+0.5\Gamma\epsilon^2+\theta h$$