

## Errata and Updates for ASM Exam IFM (First Edition Fifth Printing) Sorted by Date

[11/12/2020] On page x, on the third line under the heading “The normal distribution table”, change the link to <https://www.prometric.com/soa>.

[8/12/2020] On page 113, replace the solution to exercise 9.4 with

In the first year, investors receive a 20,000,000 free cash flow but have to repay the 10,000,000 loan with 4% interest. Net cash flow in the first year is  $20,000,000 - 10,000,000 - 400,000 = 9,600,000$ . In the second year, investors receive 15,000,000. They paid 20,578,512 at the start of the project. We therefore have to solve for  $v$  such that

$$9,600,000v + 15,000,000v^2 = 20,578,512$$

Solving the quadratic, we get  $v = 0.894208$ , so the rate of return is  $1/0.894208 - 1 = \mathbf{0.11831}$ .

[6/15/2020] On page 16, in the solution to exercise 2.12, on the third line from the end, change  $\Pr(X > 10000)$  to  $\Pr(X > 10000 | X > 8000)$ .

[6/3/2020] On page 623, solution to question 28, while the solution is correct, the strangle is a little strange in that the strike price of the call is less than the strike price of the put. So replace the first two sentences with:

A short butterfly spread is a short  $(K, L)$  bull spread plus a short  $(L, M)$  bear spread, or  $P(L) - P(K) + C(L) - C(M)$ . A straddle is  $C(L) + P(L)$  and a strangle is  $C(M) + P(K)$ , so **(C)** works.

[3/15/2020] On page 133, replace the solution to exercise 11.9 with

The tax shield is worth  $0.25(100,000,000)(0.06) = 1,500,000$ . As usual, we discount this at the interest rate of the loan, or 6%. The present value of the tax shield is then  $1,500,000/1.06 = 1,415,094$ , or 0.1415094 per share. Since share price went up only 0.10, the value of financial distress is  $0.0415094(10,000,000) =$

**415,094**.