

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

[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>.

[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 $\Pr(X > 10000 | X > 8000)$.

[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 $1/0.894208 - 1 = \boxed{0.11831}$.

[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 $0.0415094(10,000,000) = \boxed{415,094}$.

[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.