

Errata and updates for ASM Exam MFE (Tenth Edition Third Printing) sorted by page.

Practice Exam 11:26 is defective in that none of the five answer choices is correct. For Practice Exam 10:7, make the change indicated below for page 572.

[2/1/2018] On page 46, in Figure 5.10, change the title on the first graph from “Net profit” to “Payoff”.

[11/6/2017] On page 141, on the first line, change “page 334” to “page 315”.

[10/31/2017] On page 259, in Table 15.5 on the last displayed line, change the plus sign before $\frac{Ke^{-r(T-t)}e^{-d_2^2/2}}{\sqrt{2\pi}}$ to a minus sign.

[2/5/2018] On page 281, in the solution to exercise 15.12, on the first line, change 30 to 40.

[11/6/2017] On page 292, on the last line of the page, change “30ths” to “30th”.

[11/6/2017] On page 297, on the second line, change 1987 to 2009.

[11/6/2017] On page 411, in Section 20.2, the current edition of McDonald only suggests the inversion method. So delete the paragraph starting with “The first method”.

[11/6/2017] On page 421, in Table 20.1, on the first line, delete “as $\sum_{i=1}^{12} u_i - 6$, or”.

[11/7/2017] On page 452, on the last line of the solution to Quiz 21-1, change $r = -0.2/3$ to $r = -0.2/-3$.

[11/12/2017] On page 572, in question 7, negate all the answer choices.

[11/14/2017] On page 614, change the last 3 lines of the solution to question 12 to

$$N(d_2) = N(-0.51263) = 0.30411$$

$$C(100, 105, 1) = 100e^{-0.08}(0.41581) - 105e^{-0.02}(0.30411) = 7.08$$

The cost of 100 options is ¥708, or **\$7.08**.

[11/6/2017] On page 640, in the solution to question 7, the answer key should be (C) instead of D.

[10/26/2017] On page 669, in the solution to question 4, on the sixth line, change $r = 0.05$ to $r = 0.04$.

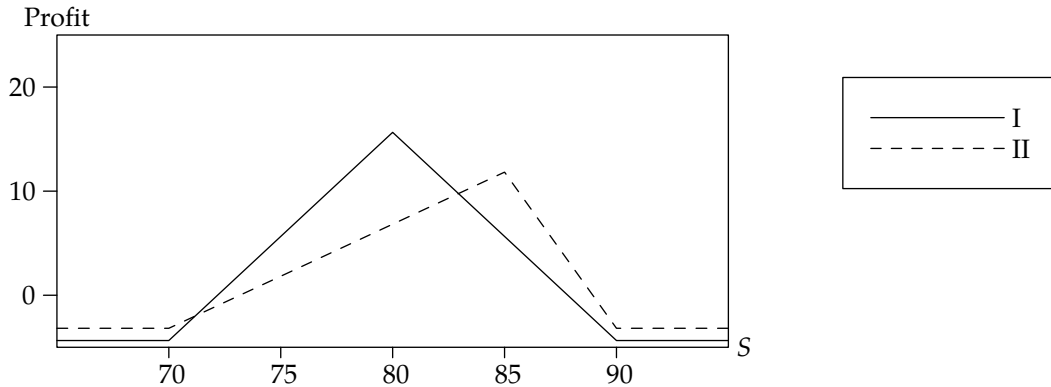
[11/12/2017] On page 682, in the solution to question 7, change the last line to

Then $\rho = -(T-t)Ke^{-r(T-t)}N(-d_2) = -0.25(104.347) = -26.0868$. In percentage points, it is **-0.260868**.
(A)

[11/5/2017] On page 700, the solution to question 26 is incorrect. The correct solution is:

The first butterfly spread has 2 long options apiece with strikes 70 and 90 and 4 short options with strike 80. Its price is $2(14.80 + 4.63) - 4(8.67) = 4.18$. The second butterfly spread has 1 long option with strike 70, 3 long options with strike 90, and 4 short options with strike 85. Its price is $14.80 + 3(4.63) - 4(6.41) = 3.05$. The difference in prices accumulated with interest is $(3.05 - 4.18)e^{0.04} = -1.17612$.

The following figure shows the profits of the two spreads:



The first spread has higher profit only in the interval in which its payoff exceeds the second spread by 1.17612. Let's equate the payoff of the first to the payoff of the second plus 1.17612. The first intersection is between 70 and 80.

$$2(S - 70) = (S - 70) + 1.17612$$

$$S = 71.17612$$

The second intersection is between 80 and 85.

$$2(S - 70) - 4(S - 80) = S - 70 + 1.17612$$

$$3S + 250 = 1.17612$$

$$S = 82.94129$$

Spread II is more profitable if $70 < S < 71.17612$ or $82.94129 < S < 90$. None of the five answer choices is correct.