

Errata and Updates for ASM Exam FAM-S (First Edition) Sorted by Date

[12/28/2022] On page 358, in the solution to exercise 22.2, on the fourth and sixth lines, change 26.5 to 26.25.

[12/28/2022] On pages 532–533, the solution to exercise 30.2 is not related to the question. Replace it with:

The risk neutral probability of an up move is

$$q = \frac{e^{0.02} - e^{-0.26}}{e^{0.34} - e^{-0.26}} = 0.393045$$

Note that $42ud > 42$, so the option only pays off at the dd node. Then

$$S_{dd} = 42e^{-0.26(2)} = 24.96986$$

$$P_0 = e^{-0.04}(1-q)^2(42 - S_{dd}) = e^{-0.04}(1-0.393045)^2(42 - 24.96986) = \boxed{6.028}$$

The full binomial tree, although not needed for the solution, is shown below:

