

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>.
- [7/11/2021] On page 3, on the second line, change the comma after “value” to a period.
- [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 $\Pr(X > 10000 | X > 8000)$.
- [7/11/2021] On page 65, 6 lines from the bottom of the page, change 0.18*q* to 0.18*b*.
- [9/2/2021] On page 89, 5 lines after Quiz 7-1, change “the unlevered cost of capital is higher” to “the unlevered beta is higher”.
- [9/3/2021] On page 95, in the solution to exercise 7.2, on the fourth line, change 0.18 to 0.08.
- [7/11/2021] On page 106, replace the solution to exercise 8.6 with
APT can use various risk factors, and does not have to use the market portfolio, so I is true and II is false. However, its structure is more complicated than CAPM, which just uses one factor. **(A)**
- [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 $1/0.894208 - 1 = \mathbf{0.11831}$.
- [7/11/2021] On page 133, in the solution to exercise 11.8, on the fourth line, change “beta of distress costs” to “rate of return of distress costs”. On the fifth line, change $(1 - (-0.12))$ to $(1 + (-0.12))$.
- [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 $0.0415094(10,000,000) = \mathbf{415,094}$.
- [7/11/2021] On page 426, in the solution to exercise 27.19, 3 lines from the end (the line beginning with “2.”), change “There is 1 down” to “There is 1 down and 1 up in either order”.
- [1/12/2022] On page 437, on the first line of the solution to Example 28C, change “strike price 50” to “strike price 40”.
- [7/11/2021] On page 473, in the solution to exercise 29.27, 4 lines from the end, move the last right parenthesis to the end of the line so that it reads
- $$= \Pr(\ln Q(2) + 2 \ln Q(3) > 0)$$
- [7/11/2021] On page 479, in exercise 30.3, on the last line of the paragraph beginning with “2.”, change “flow*x*” to “flow*s*”.
- [7/11/2021] On page 486, 3 lines above the paragraph beginning with “2. *Guaranteed*”, change “MDBG” to “GMDB”.
- [7/11/2021] On page 487, 4 lines above Section 31.3, change “strike price *R*” to “strike price *B + C*”.

- [10/26/2021] On page 507, in question 16, on the second and last lines, change “MDBG” to “GMDB”.
- [7/11/2021] On page 508, in question 21, in answer choice (D), change “i” to “I”.
- [7/11/2021] On page 513, in question 4, on the first line of the matrix, change 0,32 to 0.32 (change the comma to a period).
- [7/11/2021] On page 540, change question 15(v) to $\text{Var}(\ln F_{0.25-t, 0.25}^P(S)) = 0.09t$.
- [10/26/2021] On page 600, in the solution to question 16, on the third displayed line and on the second-to-last displayed line, change $-d2$ to $-d_2$, once on each line. Also, on the first and last lines, change “MDBG” to “GMDB”.
- [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.
- [7/11/2021] On page 627, in the solution to question 15, in the second sentence, change “variance of a prepaid forward” to “variance of the logarithm of a prepaid forward”.
- [9/18/2021] Sections B.2 and B.3 contain solutions to CAS exams that are no longer posted on the web. The relevant questions, along with (unchanged) solutions, can be found here.