

# MFE Review Notes Errata – 10/7/07 Update

## Chapter 9

- 10/7/07 Page 9-26. The second sentence at the top of the page should be, “Since the cash flow at **time 0** is positive...”
- 8/12/07 Page Q9-1. Question 3. The last sentence of the question should be, “Calculate the premium for a 6-month European call option on the stock with a strike price of **\$80**.”

## Chapter 11

- 10/7/07 Page 11-7. The equation for the risk-neutral probability on the lower portion of the page is missing the variable  $h$ . The corrected version is:

$$p^* = \frac{e^{(r-\delta)h} - d}{u - d}$$

## Chapter 12

- 10/7/07 Page 12-1. In the last line of the page,  $2\pi$  should be replaced by  $\sqrt{2\pi}$ . The corrected version is:

$$N(d) = \begin{array}{l} \text{Probability that a standard normal} \\ \text{random variable is less than } d \end{array} = \int_{-\infty}^d \frac{1}{\sqrt{2\pi}} e^{-0.5x^2} dx$$

- 10/7/07 Page Q12-13. Part (iii) of Question 42 should refer to the variance of the natural log of  $S(t)$ . The corrected version is:

$$\text{Var}[\ln S(t)] = 0.5t$$

## Chapter 24

- 7/11/07 Page Q24-16. Question 41. The fifth line of the question should refer to the Cox-Ingersoll-Ross model, not the Vasicek model.

# MFE Flashcards Errata

10/7/07 Pages 9-35 and 9-36. The arbitrage is to **sell**, not buy, the  $K_2$ -strike option.