S. BROVERMAN EXAM FM STUDY GUIDE - SPRING 2007

Updated October 3, 2007

Page 16 - Problem Set 1, #11 solution, line 3, $C03 = 1000$ should be $C03 = 100$

Page 129, Calculator Note #9, BAL $= -459.22$ should be BAL $= 459.22$

Page 139, #28, the loan should be for 10,000 (not 100,000)

Page 142, #7 solution, in line 1, "monthly" should be "quarterly"

Page 173, #11, the problem should state that the yield reates are nominal annual rates compounded semiannually, and the method used for a bond price between coupon dates uses the linear accrued coupon

Page 177 - Problem 14 solution, lines 6 and 8, $\frac{j-f}{1+j}$ in the denominator should be $\frac{j-f}{1+f}$

Page 194, #13 solution, line 7, v^{25} should be v^{15}

Page 210, #9 solution, line 5 should have $X = \frac{3{,}240{,}000+11{,}500{,}000i}{1+\frac{1}{2}i}$

and line 7 should have $X = \frac{3{,}566{,}160+6{,}750{,}000i}{1+\frac{1}{2}i}$

and the final two lines should be

from which we get $i = .0687$. This is the dollar-weighted return.

The time-weighted return is $\frac{1}{2}i = .03433$ and $X = 3,895,894$.

Page 233, #16 solution, line 4 and 5, 1664.40 should be 1166.40

Page 258, #7(c) should read "Repeat part (b)."

Page 261, #7(b) solution, 2nd line
101 should be 1010

Page 261, #8(c)(ii) and (iii), solution should be

(ii)) Loss of 50, which is 1.48% of \$3375.

(iii) Gain of $50 \times 100 - 50 = 4950$, which is 146.67% of \$3375.

Page 270, #2(b) solution, -40.32 should be 40.32

Page 272 - Example 77, 4th line from the end of the solution.

17.23 should be 16.41

Page 273 - line 14 should be

If the call premium at time of purchase is C_0, then the cost of the **cap** at time 0 is $C_0 - S_0$

Page 291 - Example 82 solution, last line should be

. . . so the profit on the collared stock is $\begin{cases} -2.28 & \text{if } S_1 \le 19 \\ S_1 - 21.28 & \text{if } 19 < S_1 \le 25 \\ 3.72 & \text{if } S_1 > 25 \end{cases}$

Page 295, the three lines below the graph of the asymmetric butterfly spread should be

This can be done by purchasing λ calls with strike price K_1 and $1-\lambda$ calls with strike price K_3 and writing 1 call with strike price K_2, where $\lambda = \frac{K_3 - K_2}{K_3 - K_1}$. The payoff will be

$$\begin{cases} 0 & \text{if } S_T \le K_1 \\ \lambda(S_T - K_1) & \text{if } K_1 < S_T \le K_2 \\ \lambda(S_T - K_1) - (S_T - K_2) = K_2 - \lambda K_1 - (1-\lambda)S_T & \text{if } K_2 < S_T \le K_3 \\ K_2 - \lambda K_1 - (1-\lambda)S_T + (1-\lambda)(S_T - K_3) = 0 & \text{if } S_T > K_3 \end{cases}.$$

Page 386, Practice Exam 4, #27, answers should be

A) 4.00 B) 4.21 C) 4.42 D) 4.63 E) 4.84

Page 393, Practice Exam 4, #27 solution, answer should be 4.42

Page 418, Practice Exam 6, #28, Answers should be

A) Less than 3 B) At least 3 but less than 5 C) At least 5 but less than 7

D) At least 7 but less than 9 E) At least 9

Page 429, #28 solution, last four lines should be

$S_0 + \text{Put}(95,\ 3 \text{ mo.}) - 95(.98) = 100 + 2 - 93.10 = 8.90$.

The premium for the bull spread is

Call-95 premium $-$ Call 100 premium $= 8.90\ -$ Call-100 premium.

Since this premium is 1, it follows that the Call-100 premium is 7.90. Answer: D

Page 440, #27, dividend yield should be 2.5%