Issues and Errata for Level I Curriculum Printed Volumes

November 22, 2022

Note: All issues and errata are corrected as they are discovered in the digital version of the curriculum

L1, V1, Page 229

Finally, *generalized* refers to the model's ability to describe wide varieties of behavior, also known as robustness. A less robust time-series model of volatility is **ARCH** (autoregressive conditional heteroskedasticity), a special case of GARCH that allows future variances to rely only on past disturbances, whereas GARCH allows future variances to depend on past variances as well. Developed subsequently to ARCH, GARCH is now generally the more popular approach in most financial asset applications.

Should be:

Finally, *generalized* refers to the model's ability to describe wide varieties of behavior, also known as robustness. A less robust time-series model of volatility is **ARCH** (autoregressive conditional heteroskedasticity), a special case of GARCH that allows future variances to rely only on past disturbances, whereas GARCH allows future variances to depend on past covariances as well. Developed subsequently to ARCH, GARCH is now generally the more popular approach in most financial asset applications.

L1, V1, page 539 Glossary

ARCH (autoregressive conditional heteroscedasticity) is a special case of GARCH that allows future variances to rely only on past disturbances, whereas GARCH allows future variances to depend on past variances as well.

Should be:

ARCH (autoregressive conditional heteroscedasticity) is a special case of GARCH that allows future variances to rely only on past disturbances, whereas GARCH allows future variances to depend on past covariances as well.

LI, V2, Page 19

To compute the expected value of the upstate we need to multiply the UpValue or up state payoff by 2/3 (the probability that the up state payoff will occur or in this

application it is the probability that the economy improves) for an expected value of $24,444.33. Lastly, we need to sum the expected value of the up state payoff and the expected value of the down state payoff, $24,444.33 plus $0 equals an option price of the land of $24,444.33.

Should be:

To compute the expected value of the upstate we need to multiply the UpValue or up state payoff by 1/3 (the probability that the up state payoff will occur or in this application it is the probability that the economy improves) for an expected value of $24,444.33. Lastly, we need to sum the expected value of the up state payoff and the expected value of the down state payoff, $24,444.33 plus $0 equals an option price of the land of $24,444.33.

LI, V2, Page 20

Workout Area 2nd column

Current Value of Property ***Numbers in the list should be:***

$100,000.00

$100.000.00

$93,750.00

$187,500.00

$55,000.00

$57,000.00

LI, V1, Page 265

Equation 6

F (1, 2) = [(2 × 11.80434%) − (1.11111%)] / (2 − 1) = 12.50% (rounded)

1.11111% **Should be** 11.11111%

Continue to next page

LI, V1, Page 330

Last paragraph, 2nd sentence

The cash flows to the arbitrageur are: $-P_0$ at time 0 to buy the stock, T from selling the stock at time T, and $F_T - P_T$ at time T from the settlement of the forward contract.

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