Issues and Errata for Level I Curriculum Printed Volumes

January 3, 2023

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

LI, V1, Page 95

Second sentence under Explanation

When the stock rises from $103 from $100, the short position loses $3 of capital loss.

Should be:

When the stock rises to $103 from $100, the short position loses $3 of capital loss.

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.

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LI, V1, Page 248

3rd paragraph and Equation

The traditional Fisher equation is sometimes modified for anticipated income taxes by assuming a uniform tax rate, *T,* on nominal interest income. The modified Fisher equation expresses the nominal interest rate (i) as the combination of the after-tax real interest rate, *r**, and the anticipated rate of inflation (π), with an adjustment for the income tax rate, *T*, as shown in Equation 6:

$i = (r^* + \pi)/(1 - T)$

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$i = r + \pi / (1-T)$

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%

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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LI, V1, Page 348

Workout Area, 1st column "3-Month Forward Index

The first number in the column, $458.75 **Should be** $498.75

The last number in the column, $44.84 **Should be** $44.72

LI, V1, Page 416

1. *Perfect positive correlation:* If the two positions are identical or have perfectly positive correlated and identical risk exposures, then the VaR of the combination is simply the sum of the squared individual VaRs, $200,000.

Should be:

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LI, V1, page 463

Explanation 3rd paragraph

Now, not all the values are given. However, we know that $R_{mt} - R_f$ = 1.25% so we can use example figures that reflect that difference. $\beta_i = 1$ R_{it} = 10%, R_{mt} = 11.25%, and R_f = 0%. Now using these figures, we can calculate ε_{it}:

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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.

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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.

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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, V2, Page 94

Workout Area

The chart, in the last column "Convenience Yield" the 2nd number 8.40% **should be** -8.40%

LI, V2, Page 240

Workout Area

The chart, in the 1st column "Loan Monthly Payment" the 6th number $826.06 **should be** $826.09

LI, V2, Page 536

(3): Co-investments Option 1	**Should be:**	(3): Co-investments Option 2

LI, V3, Page 255

2nd paragraph

The 4th sentence-

The expected value of the variance is approximately0.152.

Should be:

The expected value of the variance is approximately 0.00152.

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The 5th sentence-

The volatility corresponding to this variance is approximately 39%.

Should be:

The volatility corresponding to this variance is approximately 3.9%.