

Summer/Fall 2014 Exam Cycle

MFE/3F Study Manual Errata

Chapter 17

4/24/14 Page 17.03. In the first formula of the Key Concept the zeroes should be replaced by t 's. The corrected formula is:

$$R_t(T, T + s) = \frac{P_t(t, T)}{P_t(t, T + s)} - 1 = \begin{array}{l} \text{Interest rate, agreed upon at time } t, \\ \text{that applies from time } T \text{ to time } (T + s) \end{array}$$

Chapter 18

4/24/14 Page 18.10. In the second and third equations on the page, $t + 1$ should replace 1. The corrected version is:

$$\sigma_t = \sqrt{\frac{\text{Var}[\ln(r_t)]}{t}} = \sqrt{\frac{\text{Var}[\ln y(t, t + 1)]}{t}} = \sigma_{t, t+1}$$

The short-rate volatility is therefore a yield volatility with the bond maturing one year after t . For convenience, we drop the subscript $t + 1$ from the short-rate volatility, but as shown below, we can also include it:

$$\sigma_t = \sigma_{t, t+1}$$

MFE/3F Questions Errata

MFE/3F Formulas

4/24/14 Page F-8. In the second formula of the Chapter 17 section of the formula sheet, the zeroes should be replaced by t 's. The corrected formula is:

$$R_t(T, T + s) = \frac{P_t(t, T)}{P_t(t, T + s)} - 1 = \begin{array}{l} \text{Interest rate, agreed upon at time } t, \\ \text{that applies from time } T \text{ to time } (T + s) \end{array}$$