1 List of misprints in the Compendium

Updated: August 24, 2015

Page 19

Is Should be

(ITM) if the strike $K > S_0e^{rT}$ (ITM) if the strike $K < S_0e^{rT}$

ITM if $K < S_0e^{rT}$. ITM if $K > S_0e^{rT}$. 

Page 20

Is Should be

(OTM) if the strike $K < S_0e^{rT}$ (OTM) if the strike $K > S_0e^{rT}$

OTM if $K > S_0e^{rT}$. OTM if $K < S_0e^{rT}$.

Page 30 Exercise 1.3

Is Should be

$\sum_{i=0}^{n} \sum_{i=1}^{n}$

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Is Should be

$\int_{R} e^{(t\sigma)^2/2}e^{-(x-\sigma t)^2/(2\sigma^2)}dx$ $\int_{R} e^{(t\sigma)^2/2}e^{-(x-\sigma t)^2/(2\sigma^2)}dx$

1.1 Chapter 4

Is Should be

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$E[S_{k+1}|S_k] \geq S_k$ (super-MG) $E[S_{k+1}|S_k] \geq S_k$ (sub-MG)

$E[S_{k+1}|S_k] \leq S_k$ (sub-MG) $E[S_{k+1}|S_k] \leq S_k$ (super-MG)

1.2 Chapter 4

Is Should be

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the expiry K the expiry T

$(S_T - K_2)^+ - (S_T - K_1)^+ = S_T - K_2 > 0$ $(S_T - K_1)^+ - (S_T - K_2)^+ = S_T - K_1 > 0$

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Is Should be

$(S_T - K_2)^+ - (S_T - K_1)^+$ $(S_T - K_1)^+ - (S_T - K_2)^+$

$S_T - K_2 - (S_T - K_1) = K_1 - K - 2 > 0$ $S_T - K_1 - (S_T - K_2) = K_2 - K_1 > 0$

$C_0(T_1, K) > C_0(T_2, K)$ $C_0(T, K_2) > C_0(T, K_1)$

increase with expiry decrease with strike

but then the price is decreasing but then the price is increasing
1.3 Appendix A

Page 168. The answer to R 4.11 should be:

\[
V[I_1] = E[I_1^2] = \frac{2}{3} \sqrt{\frac{3}{\pi}} T^{3/2}
\]
\[
V[I_2] = E[I_2^2] = T^3 + \frac{3}{2} T^4 + \frac{T^5}{5}
\]
\[
V[I_3] = E[I_3^2] = \frac{T^4}{4}
\]

Page 170. The answer to R 6.3 should be given by

\[
\Pi_a(t) = \frac{1}{S_t} \exp\{(\sigma^2 - 2r)\tau\}
\]
\[
\Pi_b(t) = S_t^2 e^{\tau r + \sigma^2 \tau} N(z_0 + 2\sigma \sqrt{\tau}) - 2K S_t N(z_0 + \sigma \sqrt{\tau}) + K^2 e^{-r\tau} N(z_0)
\]
\[
\Pi_c(t) = \frac{S_t^2 e^{\tau r + \sigma^2 \tau} - K^2 e^{-r\tau}}{4K}
\]

\[
\Delta_a(t) = -\frac{1}{S_t^2} \exp\{(\sigma^2 - 2r)\tau\}
\]
\[
\Delta_b(t) = 2S_t e^{\tau r + \sigma^2 \tau} N(z_0 + 2\sigma \sqrt{\tau}) - 2K N(z_0 + \sigma \sqrt{\tau})
\]
\[
\Delta_c(t) = \frac{S_t e^{\tau r + \sigma^2 \tau}}{2K}
\]