ERRATA (EDITORIAL) LIST

for


by Robert A. Jarrow and Arkadev Chatterjea

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November 2014

Dear Reader,

We apologize for the following typographical errors. We list the Errata (Editorial) in this file; Errata (Typos) are listed in a separate file.

Entries marked Reported have been communicated to publisher W. W. Norton & Co. for corrections in the second printing (December 2013; hard copy only).

We thank professors Scott Fung and Thijs van der Heijden for their careful reading of the text.

We would be grateful if you would kindly notify us (ac286@cornell.edu) about any remaining errors.

Sincerely,

Arka and Bob
ERRATA (EDITORIAL) IN TEXT

Preface, Page XXXIII, paragraph 2: Add Ronald G. Ehrenberg in the list of people thanked

Reported Page 43, Example 1, para 1, line 5: Delete “[EXTENSION 2.4]”

Page 46, lines 4 and 5: Replace “original T-bond or note” with “original Treasury security”

Page 57, para 2, line 6: Write as “… in stocks in. The others …”

Reported Page 77, last para, line 5: Delete “stock”

Page 88, Example 4.1 (Continued), para 2: Replace “Long’s forward payoff” with “Long forward’s payoff.” Similarly rewrite “Short’s forward payoff.”

Page 97, bullet point 3, line 1: Write as “… margin accounts and keep margin (security deposits …”

Reported Page 101, para 3, last line: Delete “(see Figure 4.7)”

Reported Page 114, para 2, line 8: Write as “… she makes $6 but she …”.

Page 115, para 1, Result 5.1, after expression (5.1b): Write as: “where $S$ is the stock price on the exercise or expiration date,”

Page 119, para after the Result 5.2 box: Replace $S(T)$ with $S$ and $p(T)$ with $p$

Page 128, bullet point 6 (on scale orders), line 1: Write as “Suppose you are buying 100 contracts of April YBM calls …”

Page 131, Question 5.16 goes to Chapter 4

Reported Page 134, Example 6.1, paragraphs 1, 2 and 3, line 1: Replace “Figure 6.1a,” “Figure 6.1b,” and “Figure 6.1c” with “Figure 6.1”

Page 159, para 2, line 3: Write as “Poulenc’s employees from the downside …”

Page 163, Example 7.2, para 3, lines 3 and 4: Write as “… like the idea of paying $20 today towards acquiring a Starttofly stock in the future and getting …”

On page 164, Sec 7.4, para 1, line 3: Write as “(usually) semiannual or quarterly cash flows …”

Page 166, line 2: Write as “… dealers from most of our examples. …”
Page 166, Example 7.3, para 3, line 1: Write as “Though swaps often have semiannual or quarterly payments, …”

Page 170, line 4: Write as “(3) an exchange of final interest payments and repayment of the principal …”

Page 177, line 6: Write as “(by J. P. Morgan & Company)”

Page 178
- Example 7.7: Replace “Worried Borrowers” with “Worried Lenders” (in four instances).
- para below Example 7.7, line 3: Replace “back” with “backed”

Page 180, problem 7.8, line 5: Write as “Consider the swap in Examples 7.5 and 7.5 (continued) from Extension 7.1”

Page 193
- Reported para 4: Delete one of the sentences “Globex links … worldwide network” which occurs twice.
- para 4, line 3: Replace “Britain’s Reuters Limited” with “Thomson-Reuters Corporation”
- last para, line 1: Write as “In the new millennium, mergers and acquisitions reshaped the futures markets.”

Page 213, line 2: Write as “… from the long in exchange for a warehouse receipt …”

Page 233, para 3, line 13: Replace “helps futures” with “helps future”

Page 246, last-but-one line: Replace “CEA” with “Commodity Exchange Authority”

Page 247, line 6: Replace “CEA” with “Commodity Exchange Authority”

Reported Page 281
- line 1: Delete “date”
- Example 12.1, para 3, line 1: Replace “nothing for nothing” with “nothing comes from nothing”

Reported Page 298, para 3, line 1: Write as “Economists, on the other hand, seek explanations …”

Page 299, Section 12.6, line 5: Write as “These bounds are likely to be close …”

Reported Page 308, line 1: Insert first name “Fyodor” before Dostoyevsky

Reported Page 317, bullet point 2, line 1: Write as “goes short one June gold futures contract on …”
Reported Page 329, Subheading “Data Series,” line 2: Delete “(Appendix)”

Reported Page 331, Subheading “Statistical Estimates,” line 4: Delete “[Appendix]”

Page 340, para 2, line 3: Write as “… economic life. You enter into a call-like …”


Page 351, para 2, line 1: Write as “… spot options), a position in the spot commodity …”

Page 354, footnote 13
- lines 2 to 4: Write as “margin account initial requirement, … if any, to a minimum for calls of option proceeds plus 10% of the underlying security / index value, and a minimum for puts of option proceeds plus 10% of the put’s exercise price.”
- lines 4 to 7: Write as: “margin account maintenance requirement, … if any, to a minimum for calls of option market value plus 10% of the underlying security / index value, and a minimum for puts of option market value plus 10% of the put’s exercise price.”

Reported Page 355, last two lines: Delete “(see Extension 14.3 for … adjustments)”

Reported Page 356, Example 14.4
- Under subheading “A Fractional Split,”
  line 2: Insert $ sign before 60.28
  line 4: Delete $ sign from $150
- Under subheading “Reverse Split,” lines 1 and 2: Write as “… adjusted so that each …”

Reported Page 358, bullet point 2
- line 7: Insert $ sign before 0.56
- line 9: Write as “trade in increments of 1 cent for really low options prices, 5 cents for low options prices, …”

Page 361
- para 4, line 2: “and also buying …”
- Reported para 5, last line: Delete “Overby 1999”

Reported Page 373, line 1: Delete “follow”

Reported Page 375, line 6: Write as “… 45 degree angle, piercing the horizontal axis at the breakeven point $20.50 where it just recoups the loss.”

Page 403, para 3, line 3: Replace “today” with “at the time of portfolio creation”
Reported Page 437, Example 17.2: Write heading as “EXAMPLE 17.2: European Option Pricing”

Reported Page 443, last para, line 1: Write as “… is a mma.”

Reported Page 451, FIGURE 17.6, heading: Write as “Robert Merton’s “Trick”

Page 489, Q&P 18.20, line 2: Write as “the stock price squared less a strike price if it has a positive value, zero otherwise:”

Reported Page 491, para 1, line 3: Write: “Professor Mark Rubinstein”

Page 509: Figure 19.3B is not a smooth line. Redraw by computing gamma values for stock prices that are closer to each other.

Page 540, Result 20.2
  • line 1: Replace “buy n₁” with “trade n₁”
  • line 2: Delete “sell”

Reported Page 566, box in the middle, under “Goal,” line 2: Change “3.” to “2”

Page 573, para 4, line 1: Write as “… dollar deposits in foreign banks (or foreign subsidiaries …”

Reported Page 575, Example 21.1, line 1: Write as “Consider zero-coupon bond prices with …”

Reported Page 585, last line: Delete “one”

Reported Page 592, number 1, line 2: Write as “literature.”

Page 602, para 3
  • Reported line 3: Write: “quoted futures price goes down …”
  • line 3: Write as “. by one basis point, or 0.01, …”
Reported Page 608, para 1, line 9: Write as: “market-traded forward rate agreement contract. …”

Page 617, Under Table 22.2: Write “Notional amounts in billions of US dollars”


Reported Page 653, under the subheading “The Spot Rate,” line 3: Delete last bracket and write as $R(0) = [1 - B(0,1)]/B(0,1)$
**Reported Page 655**, expression (23.9d): Replace \( d(T) \) with \( d(0,T) \)

**Page 747**, para 5, line 2: Write as “In practice, \( \alpha \) is often set to be 0.01 or 0.05.”

**Page 749**, bullet point 3, line 1: Delete “the desired”

**Page 757**
- line 3: Rewrite as: “… complexity as a result.”
- sentence before expression (4): Rewrite as “… determine the value to be”

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**ERRATA (EDITORIAL) IN SOLUTIONS MANUAL**

**Page 273**, Q&P 26.2, Answer, last line, After “to the extent possible.” add: “The length of the bankruptcy resolution process is random due to the need for the debt holders and the equity holders (represented by management) to reach agreement as to how to resolve their debt obligations. Differences of opinion between these two groups often lengthen the process. Consequently, the investment horizon for distressed debt is not fixed and known as it is with ordinary bonds that have not defaulted.”