

# ERRATA & CORRIGENDA

*S.Bossu and P. Henrotte, "An introduction to Equity Derivatives: Theory and Practice", 2E,  
John Wiley & Sons (2012)*

*This version: 6 April 2014*

*Please visit [www.introeqd.com](http://www.introeqd.com)*

**Chapter 1, p.9:** Change the title for Problem 9 from "Expected Return" to "Required Return".

**Chapter 2, p.13:** Replace "PV" with "NPV" in the second shaded box entitled "Example with initial cost  $C_0 = \text{€}400\text{mn}$ "

**Chapter 5, p.55:** There are typos in the first two rows of the Cash Flow column at the top of the page; replace with:

$$+\frac{K}{(1+z(T))^T} \text{ and } +\frac{D}{(1+z(t_D))^{t_D}}.$$

**Chapter 6, p.69:** There is a typo in the formula for  $\Delta$  at the top of the page; replace with:

$$\Delta = \frac{0.559 - 2.978}{26 - 23} = -0.773$$

**Chapter 7, p.82:** There is a typo in Problem 14, question (c); replace with:

"(c) Show that  $Y > K$  if and only if  $X > -d_2$ "

**Chapter 11, p. 124:** There is a typo in Problem 3, question (b); replace " $\mathbb{E}(\sigma_t) > \sigma$ " with " $\mathbb{E}(\sigma_t^2) > \sigma^2$ ".

**Solutions, p. 151:** There is a typo in the cross-reference in Problem 6. Replace with "Figure 3-2 p. 25".

**Solutions, p. 152:** The arbitrage price calculation in Problem 9 is incorrect. Replace with:

$$P = \frac{30}{1.001555} + \frac{30}{1.004815^2} + \dots + \frac{530}{1.03452^{10}} \approx \$619.62$$

**Solutions, p. 168:** There is a typo in  $\Delta_0$  at the bottom of the page; replace with:

$$\Delta_0 = \frac{0.71 - 10}{60 - 40} = -0.4645$$

**Solutions, p. 169:** There are typos in Problem 1. In Step  $t = 1$  replace  $c_1^{(d)}$  with:

$$c_1^{(d)} = 0.25 \times 110 + \frac{0 - 0.25 \times 100}{1.05} = €3.69,$$

and  $c_0 = 0.5625 \times 120 + \frac{26.19 - 0.5625 \times 150}{1.05} = €12.08$ . In Step  $t = 0$  replace  $p_0 = €10$ .

**Solutions, p. 189:** The Excel snapshot in Problem 6 contains cell formulas with stale cell references. Please create an account on [www.introeqd.com](http://www.introeqd.com) to download the spreadsheet. The correct snapshot is given in Table 1 p.2 of this document.

**Table 1. Snapshot for Solutions, p. 189, Problem 6.**

Day	Time to Maturity	dSt	S	Call	Delta	\$Gamma	Start Ptf Value	Buy/Sell	End Ptf Value	Daily P&L	Cumul. P&L	P&L Proxy
0	1.000		100.00	17.97	0.626	-47.35		6,263.12	446,622.82	0.00	0.00	0.00
1	0.996	4.22	104.22	20.65	0.665	-47.58	446,199.11	382.66	446,079.65	-512.32	-512.32	-542.45
2	0.992	1.34	105.53	21.49	0.676	-47.62	486,401.62	775.85	486,079.65	-228.52	-740.84	-227.39
3	0.988		109.45	23.69	0.702	-47.38						
4	0.984		108.57	24.12	0.708	-47.38						
5	0.980		107.51	23.46	0.701	-47.61						
6	0.976		108.92	23.63	0.703	-47.76						
7	0.972		109.87	24.26								
8	0.968		106.71	22.01								
9	0.964		108.61	23.29								
10	0.960		107.72	22.63								
11	0.956		108.38	23.05								
12	0.952		110.86	24.76								
13	0.948		111.22	24.98								
14	0.944		110.66	24.54								
15	0.940		112.57	25.84								
16	0.937		114.88	27.51								
17	0.933		114.79	27.40								
18	0.929		113.23	26.19								
19	0.925		112.53	25.64								
20	0.921		116.40	28.48								
21	0.917		116.63	28.62								
22	0.913		121.04	32.00								
23	0.909											
24	0.905											

**Appendix A, p. 207:** There is a typo in the calculation of variance and standard deviation at the bottom of the page. Replace with:

- $V(X) = (130 - 103)^2 \times 0.15 + (115 - 103)^2 \times 0.2 + (100 - 103)^2 \times 0.35 + (90 - 103)^2 \times 0.25 + (60 - 103)^2 \times 0.05 = 276$
- $\sigma(X) = \sqrt{276} = 16.61$

This means that the price of ABC Inc. in a year's time will likely deviate by  $\pm\$16.61$  from the \$103 mean.

**Appendix A, p.208:** There is a typo in the expression for the cumulative distribution of  $X$ . Change the penultimate condition to:

$$0.65 + 0.2 = 0.85 \text{ for } 115 \leq x < 130$$