Errata sheet for *Lectures on Corporate Finance* by Peter Bossaerts and Bernt Arne Ødegaard.

The following are corrections to the first printing of the book.

Last changed 2 feb 2005

Page 30, section 5.8

The PV of an annuity contains an error, it should be $(1+r)$ (plus!) instead of $(1-r)$. The correct is

$$PV = \sum_{t=1}^{T} \frac{X}{(1+r)^t}$$

Page 33, section 5.10

The bond price calculation contains an error, the bond price should equal 115 (not 35)

page 38, problem 5.9

The PV of an annuity contains an error, it should be $(1+r)$ (plus!) instead of $(1-r)$. The correct is

$$PV = \sum_{t=1}^{T} \frac{X}{(1+r)^t}$$

Page 55. The expected return calculation in the example contains an error, it should read

$$E[\tilde{r}_p] = \omega_1 E[\tilde{r}_1] + \omega_2 E[\tilde{r}_2] = \frac{1}{2}10\% + \frac{1}{2}15\% = \mathbf{12.5}\%.$$

The variance calculation is numerically correct, but the sequence of labels is misleading, it correctly should read

$$\begin{aligned} \sigma^2(\tilde{r}_p) &= \omega_1^2\sigma^2(\tilde{r}_1) + 2\omega_1\omega_2\sigma(\tilde{r}_1)\sigma(\tilde{r}_2)\rho(\tilde{r}_1,\tilde{r}_2) + \omega_2^2\sigma^2(\tilde{r}_2) \\ &= 0.5^2 \cdot 0.1^2 + 2 \cdot 0.5 \cdot 0.5 \cdot 0.1 \cdot 0.2 \cdot 0.15 + 0.5^2 \cdot 0.2^2 \\ &= 0.014 \end{aligned}$$

Page 71. Example on top: The price of a risk free security is erroneously calculated as 0.9. It should be **0.8**.

The risk free interest rate should then be calculated as

$$r = \frac{1}{0.8} - 1 = \mathbf{25}\%$$

The correct calculation of the risk free interest rate is shown in the continuation of the example on the next page (pg 72).

Page 96. Exercise 10.1. The risk free interest rate is wrong, it should be 33.33%, not 10%.

Page 126. Exercise 14.2. The risk free interest rate is wrong, it should be 5%, not 10%.

Page 138. Exercise 15.2. The risk free interest rate is wrong, it should be 5%, not 10%.

Page 158. The calculation used to find the state price probability has the wrong interest rate, it should read 10%, not 5%. The correct equation is:

$$0 = \frac{1}{1.10}\left(p^u(0.80 - 0.55) + (1 - p^u)(0.5 - 0.55)\right)$$

The calculation of p^u is not affected by this error, $p^u = 0.167$ is still correct.