

Errata
A Course in Derivative Securities: Introduction to Theory and Computation

I thank Hong Liu, Heber Farnsworth, and their students at Washington University in St. Louis for catching many of the following mistakes.

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VBA Errors

1. Page 48, Problem 2.1: replace “ $\text{Exp}(i/N) - \text{Exp}((i-1)/N)$ ” with “ $\text{Exp}(i \cdot T/N) - \text{Exp}((i-1) \cdot T/N)$ ”
2. Page 41, `Simulating_Geometric_Brownian_Motion` program: replace “`LogS = LogS + SigSqrt * RandN()`” with “`LogS = LogS + drift + SigSqrt * RandN()`”
3. Page 186, Call on Call program: replace “`guess = Black_Scholes_Call`” with “`fguess = Black_Scholes_Call`”
4. Page 322, Section A.4: replace “To write text to the cell, enclose it in parentheses” with “To write text to the cell, enclose it in quotation marks.”

Errors in Boxed Formulas

1. Page 315, move the minus sign from the third line on the right-hand side of (14.39) to the first line.

Other Errors

1. Page 28, footnote 1: replace “`sqrtdt * z` scales the standard normal z ” with “`Sqrt * RandN()` scales the standard normal”

2. Page 41, last line, replace “another another” with “another”
3. Page 43, third line of formula for dZ/Z : replace “ $\rho\sigma_s\sigma_y dt$ ” with “ $\rho\sigma_s\sigma_y$ ”
4. Page 65, last line: replace “the value of the portfolio is the cash position” with “the value of the portfolio is the cash position (after liquidating the stock position)”
5. Page 74, first displayed formula for \bar{r} : replace “ $\sum_{i=1}^N \log S(t_i) - \log S(t_{i-1})$ ” with “ $\sum_{i=1}^N [\log S(t_i) - \log S(t_{i-1})]$ ”
6. Page 76, line below (4.8): replace “ $\hat{\sigma}_{i+1}^2$ denotes the estimate of the volatility” with “ $\hat{\sigma}_{i+1}$ denotes the estimate of the volatility”
7. Page 95, replace “We can in principle obtain a more precise estimate of the derivative” with “We can in principle obtain a more precise estimate of the delta”
8. Page 96, 5th line from bottom, replace “ $S_d(T)$ as $[S_u(0)/S(0)] \times S(T)$ ” with “ $S_d(T)$ as $[S_d(0)/S(0)] \times S(T)$ ”
9. Page 112, penultimate line, replace “with starts with” with “starts with”
10. Page 118, second displayed formula for $d(1/X)/(1/X)$: replace “ $+\sigma_x dB_x^*$ ” with “ $-\sigma_x dB_x^*$ ”
11. Page 133, last paragraph: delete “The value of the long forward is given by its market price $F(T)$, but”
12. Page 134, eq. (7.10): replace “ $\max(S_2(T) - S_1(T))$ ” with “ $\max(0, S_2(T) - S_1(T))$ ”
13. Page 145, the displayed formula for $F^*(t)$ at the end of Sect. 7.7 would make more sense as

$$F^*(t) = E_t^R[F^*(T')] = E_t^R[F(T')] = E_t^P[F(T')] = F(t) .$$
14. Page 146, first line of second paragraph, replace “an options” with “an option”
15. Page 159, first line of Numeraires subsection, replace $yS(T)$ with $yS(T')$
16. Page 160, last two displayed formulas, replace “ $+\sigma^2/2$ ” with “ $-\sigma^2/2$ ”
17. Page 181, add a period after (8.34)
18. Page 181, first line of displayed formula for σ_{avg} , delete “ dt ”
19. Page 226, eq. (10.9), λ_0 and λ_∞ are switched
20. Page 325, last paragraph: replace “MATLAB” with “VBA”
21. Page 325, last line: replace “ $i = 2$ ” with “ $i = 1$ ”