Errata

This is a list of errors found in the lecture notes. Please let me know if you suspect additional errors.

1. 25 August p. 15, bullet point 7: Borrow money is equivalent to short selling the *risk free* asset, not the risky asset.

2. 25 August p. 19: One w_i should have been a w_j. Towards the end of the page, it should read: "Observe next that for any portfolio,

$$\frac{\partial \sigma_p^2}{\partial w_i} = 2w_i\sigma_i^2 + 2\sum_{j \neq i} w_j \sigma_{ij}.$$

"

3. 25 August, p. 9, first bullet point: Equation should be $\sigma_p = \pm[a\sigma_1 - (1-a)\sigma_2]$, cf. also p. 96 of Danthine and Donaldson, the section on "Perfect negative correlation."

4. Suggested answer to compulsory assignment, problem 2, equation (5): There should be a plus sign, not a minus sign, as follows: Not

$$\beta_i = \frac{\varphi(\tilde{P})Q(1-t)}{\varphi(\tilde{V})}\beta_P - \frac{\frac{tcI}{1+r_f}}{\varphi(\tilde{V})} \cdot 0$$

(wrong), but

$$\beta_i = \frac{\varphi(\tilde{P})Q(1-t)}{\varphi(\tilde{V})}\beta_P + \frac{\frac{tcI}{1+r_f}}{\varphi(\tilde{V})} \cdot 0$$

(right). (A new version today, 15 Nov., has corrected this error.)

Thanks to those who have made me aware of these errors!

Last updated on 15 November 2004.