

BTD T Manual for exam IFM, 2020 Edition
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Errata

Posted October 12, 2019

In the solution of Problem 26 in Practice Exam 11, the sentence

Peter's portfolio also generates arbitrage profit, if we assume that he buys two calls and sells two puts with strike price of 55

should be:

Peter's portfolio also generates arbitrage profit, if we assume that he buys three puts and sells three calls with strike price of 50, i.e., he shorts three forwards with exercise price of 50:

Posted October 6, 2019

Problem 29 in Practice Exam 5 covers a topic no longer on exam IFM. Please replace it with this problem:

Study Note IFM-01-18, Problem No. 53, video solution:

<http://smarturl.it/KO-IFM-Exercise58>

For each ton of a certain type of rice commodity, the four-year forward price is 300. A four-year 400-strike European call option costs 110. The continuously compounded risk-free interest rate is 6.5%. Calculate the cost of a four-year 400-strike European put option for this rice commodity.

A. 10.00 B. 32.89 C. 118.42 D. 187.11 E. 210.00

Solution.

Let F be the forward price, K be the strike price, C be the call option price, P be the put option price, v be the annual discount factor due to risk-free interest, and t be the number of years till expiration. We have this put-call parity formula

$$C - P = v^t \cdot (F - K).$$

Using the data given for this rice commodity,

$$110 - P = (e^{-0.065})^4 \cdot (300 - 400),$$

resulting in

$$P = 110 + 100e^{-0.26} \approx 187.11.$$

Answer D.

Posted October 6, 2019

In the exercise on page 29, add this to the exercise text:

Assume that you must replenish maintenance margin only when margin call is made, not the entire initial margin.

and this comment:

Note that in this problem we assume when margin account balance falls below maintenance margin, we assume that only maintenance margin must be restored by the investor. But in practice it is very common that full initial margin must be restored. Keep that possibility in mind when you solve similar problems.

Posted October 6, 2019

In Problem 22 Practice Exam 2, add this:

Assume that you must replenish maintenance margin when margin call is made.

Posted October 6, 2019

In Problem 2 in Practice Exam 10, add this to the text of the problem:

Assume that when margin call is made, the investor must replenish maintenance margin, not the full initial margin.

Posted September 27, 2019

McDonald's chapter 19 material on Monte Carlo simulation is not on exam IFM, but discussion of Monte Carlo simulation in the study note IFM-21-18 is. For this reason, I included some exercises on the topic that were based on old material (old sample problems 54, 57, 58, 59) in discussion of this topic.

Posted September 27, 2019

On page 132, the phrase

**Study Note MFE-01-17, Problem No. 52
should be**

Study Note MFE-01-17, Problem No. 54