

2009 CFA Program: Level I Errata
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To be fair to all candidates, CFA Institute does not respond directly to individual candidate inquiries. If you have a question concerning CFA Program content, please contact CFA Institute (info@cfainstitute.org) to have potential errata investigated. Corrections below are in **bold** and new corrections will be shown in **red**.

The short scale method of numeration is used in the CFA Program curriculum. A billion is 10^9 and a trillion is 10^{12} . This is in contrast to the long scale method where a billion is 1 million squared and a trillion is 1 million cubed. The short scale method of numeration is the prevalent method internationally and in the finance industry.

For your convenience, the full Global Investment Performance Standards, including the GIPS Glossary, can be found at: <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2005.n5.4002>.

- *Study Session 2, Reading 5*: In Step (ii) of the solution to problem 14.A (bottom of p. A-18), a zero was omitted from $(1 + \mathbf{0.08})^4$. The final solution is correct as given.
- *Study Session 2, Reading 6*: In the last line of solution 8.B (p. A-27), **change** “bank discount” to “money market.”
- *Study Session 2, Reading 7*: In the middle of p. 289, above the target semivariance formula, **delete** the words “below the target.”
- *Study Session 3, Reading 9*: On p. 371, **delete the beginning of LOS (g)** “construct and interpret a confidence interval for a normally distributed random variable.” The remainder of the LOS (“determine the probability ...”) is still required. In the second line of the first full paragraph on p. 407, **delete the comma** after “European-style options.” The reference is to European options not having an analytic solution (such as the Asian call option discussed on the same page) rather than to all European options. There is a typo in the solution to problem 5 (p. A-50); the result of the last probability equation should be **0.000219** (instead of 0.003572). In the third line of solution 15.C (p. A-52), **change** $Y = \ln X$ to read $X = \ln Y$.
- *Study Session 3, Reading 10*: There are a number of errors in this reading:
 - In Table 1 (p. 426), **delete the minus signs** from the two standard deviation figures.
 - In the discussion of confidence intervals for the population mean (pp. 433 through 438), **change the six occurrences** of $(1 - \alpha)\%$ to **100(1 - α)%**. The same change should be made to the four occurrences in the Summary on pp. 448 and 449.
 - The second sentence of problem 2 (p. 450) should be changed as follows: “Munzi **estimates** that the population ... is 4 percent and **assumes** that the returns are independent across managers.
 - In problems 10A and 10B (p. 452) and their solutions (p. A-57), replace “1, 2, or 3” with “2 or 3” and **strike the expressions relating to 1 standard deviation**.
 - **Delete problem 21** (p. 453) and its solution (p. A-59); this problem is no longer assigned.
- *Study Session 3, Reading 11*: In the next-to-last line of p. 480, **insert a minus sign** before the second 1.714 (“... if $t < -1.714$.”) The third line of problem 10 (p. 498) should end with “... mean value for **Analyst A**” (instead of Analyst B). The solutions are correct as given.
- *Study Session 4, Reading 16*: In the 4th summary bullet on p. 121, **replace explicit** with implicit (“firm’s implicit costs”).

- *Study Session 5, Reading 21:* On p. 258, in the third line of *Max's Numbers*, insert **“total”** before “wage rate” (... if the **total wage rate** is \$12 an hour). In the fourth line of the third full paragraph on p. 278, replace ($r = 0.5$) with ($r = 0.05$).
- *Study Session 6, Reading 25:* **Delete LOS (c)** dealing with anticipated and unanticipated inflation.
- *Study Session 7, Reading 31:* The third line of Example 6 (p. 119) should begin with “2006” instead of 2005 (At the beginning of **2006**, ...).
- *Study Session 8, Reading 32:* In the second full paragraph on p. 166, immediately before Section 6.2, delete “In Exhibit 2” and “In Exhibit 1.” EPS was omitted from the exhibits. In the solution to problem 13 (p. A-7), **currency symbols** should be pounds (£) instead of dollars (\$).
- *Study Session 8, Reading 34:* Near the bottom of p. 253, the 2005 value for “Accrued expenses and other liabilities” should be **20,009** (instead of 20,000 even).
- *Study Session 9, Reading 35:* In the last sentence of the Solution to Example 7 (p. 319), use **\$115.00 replacement** cost in both sets of brackets, **\$110.00 historical** cost in the first set of brackets, and **\$105.00 historical** cost in the second set of brackets (instead of \$215, \$210, and \$205 respectively).
- *Study Session 9, Reading 36:* In the second-to-last line on p. 335, **change less to more:** “...the amount of the expenditure in a period is **more** than the depreciation ...” On p. 352, **delete the last sentence** in the first paragraph of Section 4.2, beginning with “Under U.S. GAAP” until the end of that paragraph.
- *Study Session 9, Reading 37:* There are a number of corrections in this reading:
 - In the third line of Section 2.2 (p. 386), **delete “assets and”** to read: Deferred tax liabilities occur ...
 - In the third paragraph of Section 4.2 (p. 398), **delete “and U.S. GAAP.”**
 - In item 4 at the top of p. 400, the temporary difference will result in a deferred tax **liability** instead of tax asset.
 - At the beginning of the last paragraph on p. 403, **insert “Under U.S. GAAP.”**
 - In the last bullet on p. 417, change the last two lines to read: “... amount should be reduced. **Under U.S. GAAP, this is done** through the use of a ~~deferred asset~~ valuation allowance.”
 - In problem 1-B (p. 418), change **tax liability to tax asset**.
 - In problem 15 (p. 420), change **IFRS to U.S. GAAP** and change **€ to \$**.
 - In solution 1 (p. A-18), change **tax asset to tax liability** in the second line.
 - In solution 3 (p. A-18), **C is correct**. Change asset to **liability** (2nd line) and liability to **asset** (3rd line).
- *Study Session 10, Reading 39:* In Example 12 and Example 13, solution choices B and C (pp. 520 and 522) should refer to **2005** instead of 2004. In the solution to Example 13 (p. 523), slight differences in ROE are due to rounding when DuPont analysis is used.
- *Study Session 11, Reading 44:* In the last paragraph of section 4.6 (p. 17), **delete “which we will discuss later.”** Capital rationing can result in mutually exclusive projects, discussed on p. 20.
- *Study Session 11, Reading 45:*
 - In footnote 1 (page 41), **delete the last two sentences** beginning with “If instead we chose ...” through the end of the footnote.

- In equation 45-2 (bottom of p. 43), the numerator in the **summation** should have a subscript of t instead of i (i.e., PMT_t).
- In the vignette for problems 19–22 (p. 78), candidates should note that the market value of equity is shown in *Billions*, while the market value of debt is shown in *Millions*.
- *Study Session 11, Reading 47*: In Reading 47, the equations properly reflect the preference for using average total assets and average shareholders' equity. However, since information was not provided to get averages for the year 2003 for Office Depot or for Staples, the author elected to use year-end numbers for more consistent comparison.
- *Study Session 12, Reading 51*: There are a number of corrections for this reading:
 - On p. 252, in the section titled Covariance with a Risk-Free Asset, delete the final sentence and its equation. In the first paragraph of p. 253, delete the second sentence "Because...equals zero." In the third sentence, replace "has either of these terms" with "multiplies by σ_{RF} ".
 - In Exhibit 7 (p. 262), the Estimated Future Rate of Return for **Stock B should be 6.25** and for **Stock D should be 4.84**. Carrying this correction to Exhibit 8, Estimated Return and Estimated Return Minus $E(R_i)$ should be **6.25 and -2.75 for Stock B** and for Stock D the numbers should be **4.84 and -5.76**.
- *Study Session 13, Reading 52*:
 - The last paragraph on p. 25 refers to the **uptick rule** for short sales, which was eliminated by the U.S. SEC effective July 2007. Candidates are not responsible for rulings or pronouncements that occur after a reading was written.
 - On p. 28, in the formulas showing the margin account return, the numerator should include a **subtraction of 100 instead of 200** for commissions. For a 20% increase, the return is thus $(12,000 - 5,000 - 300 - 100) / (5,000 + 100) = (6,600 / 5,100) - 1 = 29.4\%$. For a 20% decline: $(8,000 - 5,000 - 300 - 100) / (5,000 + 100) = (2,600 / 5,100) - 1 = -49.0\%$.
 - Problem 6 dealing with EMH (p. 38) should be addressed after studying Reading 54.
- *Study Session 13, Reading 53*: The first sentence under the section heading on p. 58 should refer back to **Exhibit 10 of Reading 49** instead of Exhibit 14. In this same paragraph, the second bracketed phrase should be "(e.g., the results for **large** versus **small company** stocks)" instead of NYSE and Nasdaq. In the solution to 2.A (p. A-6), the **first set of market values** should all be \$1,000 and should total \$3,000 (instead of millions).
- *Study Session 14, Reading 56*: In the fourth line of **LOS (e)**, change "a country risk premium" to "**an equity risk premium**." Near the middle of p. 128, the calculation for estimated price should be $14 \times \$2.75 = \38.50 (instead of \$35.50). Because of the number of changes this would entail in the following paragraphs, we will continue using the authors' original estimate of \$38 since we are demonstrating a process and the process is correctly illustrated.
- *Study Session 15, Reading 62*: In the solutions to 4.A.i and 4.B.i (p. A-33), **remove the percent sign from the calculation of inflation adjustment**.
- *Study Session 15, Reading 63*: In the graph of the French OAT Yield Curve on p. 339, the upper right-hand values should both be **5.44** (instead of 2.21 and 2.03).
- *Study Session 16, Reading 64*: In problem 5.D.ii (p. 384) and its solution at the top of p. A-46, change "an increase in the discount rate" to "**a decrease** in the discount rate." Problem 15 (p. 386) should be worked **after studying Reading 65**.
- *Study Session 16, Reading 65*: There are a number of errors in this reading:

- In the formula for annual-pay yield (p. 399), the numerator should show “ ... **bond-equivalent** basis” (hyphen instead of equal sign).
- In the table at the top of p. 428, the last column heading should be “PV of Cash Flow” and the second to last column heading should just be “Cash Flow.”
- The final line of the solution for problem 9 (top of p. A-73) should refer to **Exhibit 12** (instead of Exhibit 8).
- In the last formula for solution 11.A (p. A-73), the **exponent** should be **1/12** (instead of 1>12) and the final solution should be 0.034943.
- *Study Session 16, Reading 66*: On p. A-74, the final sentence of the solution to 2 (“In addition, the two bonds ...”) should be **moved to the end of the solution to 3**.
- *Study Session 17, Reading 67*: Candidates should work practice problem 14 (p. 27) after studying Reading 70, “Option Markets and Contracts.”
- *Study Session 17, Reading 69*: In the middle of p. 64, **insert brackets and 1** to the futures price, as follows: $100[1 - (\text{Rate}/100)(90/360)]$.
- *Study Session 17, Reading 70*: On p. 113, in the 10th line of the second paragraph, the stand-alone letters “dc” **should appear as δ^c** . On p. A-10, solution 15 is correct but the **explanation should be edited** as follows: “For an American- style call, ~~the lower bound is the greater of zero or the stock price minus the strike price. In this problem, that difference is negative \$5. Thus, the lower bound is zero.~~ For a or European-style call, the lower bound is the greater of zero or the difference between the stock price and the present value of the strike price. In this problem, the difference is 35 minus $(40/1.10)$ = negative \$1.36. Thus, the lower bound is zero ~~whether the call is American or European.~~”
- *Study Session 17, Reading 71*: In Solution C of Example 1 (p. 131), the Counterparty pays the domestic party $\$50,000,000 + \$1,380,822 = \$51,380,822$ (instead of ...222). In the solution to problem 9 (p. A-13), there is a **missing zero** in the second line: 0.52 should be **0.052**.
- *Study Session 17, Reading 72*: On p. 152, the first formula under Section 2.1.2 should read $p_T = X = S_T$ (i.e., insert the subscript T for the last variable).
- *Study Session 18, Reading 73*: There are a number of edits to this reading:
 - In the 8th line of Example 5 (p. 203), the probability for year 2 is 0.22 (instead of 0.25).
 - Candidates should **delete Example 7** (p. 208) and **delete problem 14** (pp. 235 and A-23); these items are no longer part of the reading assignment.
 - In the fourth line of solution 1.B (p. A-18), 1.093 should appear as **1.09³**.
 - In the solution to 5 (top of p. A-20), the second line of calculation should begin with **836,000/1.18⁵** (instead of 36,000).
 - In the last paragraph of the solution to 6-C (p. A-21), $NPV = \$339,142$ **minus** \$300,000 (minus sign instead of plus).