

ERRATA TO ACCOMPANY

FINANCIAL INSTITUTIONS

INSTRUMENTS AND MARKETS

FOURTH EDITION

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McGraw-Hill Australia apologises for some errors contained in the above title. We suggest that you mark the following corrections in your book immediately.

PRELIMINARY PAGES

Page xvii List of reviewers

'Milind Sythe' should be 'Milind Sathye'.

CHAPTER 2

Page 87 Delete Review Question 21.

CHAPTER 6

Page 224 Equation 6.8

Change to the following:

$$P_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1+i)^t}$$

P_0 = current share price

D_t = expected dividend per share in period t

i = required rate of return

Page 229 Second paragraph, third sentence

Change to: 'On the other hand, the S&P/ASX200 index incorporates 200 stocks.'

CHAPTER 8**Page 281 Example 9, last equation**

Change the 'or' in the first line of the equation to a multiplication sign:

$$\text{HPY} = \frac{365}{50} \times \frac{1175.92}{96273.05}$$

Page 293 Second sentence

Add the words 'per annum' to the end of the sentence:

The formula for converting a nominal rate into an effective rate is:

$$i_e = (1 + i)^m - 1$$

where i_e is the effective rate of interest, i is the nominal rate of interest per period, and m is the number of compounding periods per annum.**Example 19, equation a**

Change the first line of the equation to:

$$i_e = \left(1 + \frac{0.10}{1}\right)^1 - 1$$

Example 19, equation b

Change the first line of the equation to:

$$i_e = \left(1 + \frac{0.10}{2}\right)^2 - 1$$

Example 19, equation c

Change the first line of the equation to:

$$i_e = \left(1 + \frac{0.10}{12}\right)^{12} - 1$$

CHAPTER 9**Page 309 Figure 9.3**

Delete 'accepted' from the caption: 'Figure 9.3 Flow of funds: Bank bills'

CHAPTER 13**Page 443 Introduction, last line**Change 'liquidity preference theory' to 'liquidity premium theory'.**Page 457 Second paragraph, second line**Change 'liquidity preference theory' to 'liquidity premium theory'.**Page 462 Second heading**Change '13.4.4 The liquidity preference theory' to '13.4.4 The liquidity premium theory'.**Page 463 Third paragraph, first line**Change 'liquidity preference theory' to 'liquidity premium theory'.**First margin definition**Change 'Liquidity preference theory' to 'Liquidity premium theory'.

Page 470 Example 1, equation b

Change first two lines of the equation to:

$$\begin{aligned} {}_2i_2 &= \left[\frac{(1+{}_0i_4)^4}{(1+{}_0i_2)^2} \right]^{\frac{1}{2}} - 1 \\ &= \left[\frac{(1+0.125)^4}{(1.115)^2} \right]^{\frac{1}{2}} - 1 \end{aligned}$$

Page 472 Summary, fourth paragraph, seventh line

Change 'liquidity preference theory' to 'liquidity premium theory'.

Page 475 Review Question 17

Change 'liquidity preference theory' to 'liquidity premium theory'.

Page 476 Essay Question 11

Change both instances of 'liquidity preference theory' to 'liquidity premium theory'.

CHAPTER 15

Page 522/3 Last sentence/first sentence

Change to:

For example, the EUR/AUD (euro oz dollar, or euro Aussie) spot rate might be written as:

EUR/AUD1.8155–1.8165

And would be expressed in words as something like 'euro Aussie spot is one eighty-one fifty-five to sixty-five'.

Page 523 First paragraph under 'Interpreting verbal quotations' heading, first sentence

Change to: 'In the euro Aussie spot quote above, it can be noted that: ...'

First paragraph under 'Interpreting verbal quotations' heading, last sentence

Change to:

In the quote above, 'one eighty-one fifty-five' would be understood by market participants to mean EUR/AUD1.8155.

Second paragraph under 'Interpreting verbal quotations' heading, first sentence

Change to:

The other convention illustrated in the quotation on the 'euro Aussie spot' rate is that the second number in the quotation is considerably abbreviated.

Second paragraph under 'Interpreting verbal quotations' heading, last sentence

Change to:

That is, 'euro Aussie spot is one eighty-one fifty-five to sixty-five' means:

EUR/AUD1.8155–(1.81)65

Page 524 First paragraph

Change to:

Two-way prices

The focus now returns to the euro Aussie spot rate (EUR/AUD1.8155–1.8165) and the reason for there being two numbers. The two numbers identify the price at which the **price-maker FX dealer** will buy and sell the unit of the quotation. That is:

- the price-maker FX dealer will buy EUR1 for AUD1.8155. From the price-taker's point of view, it would sell EUR1 and receive AUD1.8155
- the price-maker FX dealer will sell EUR1 for AUD1.8165. From the price-taker's point of view, it receives EUR1 by selling AUD1.8165.

Page 524/5 Last paragraph/first paragraph

Change to:

In the previous section a quote was considered of EUR/AUD 1.8155–65, where the EUR was the unit of the quotation. To find the value of the AUD/EUR, the quotation would need to be transposed. Given the EUR/AUD rate, it is possible, using a simple rule, to calculate the quote that should prevail if the AUD is the unit of the quotation. The rule to transpose a rate is 'reverse then invert'. Therefore:

EUR/AUD 1.8155–1.8165

Reverse the bid and offer prices:

1.8165–1.8155

Then take the inverse; that is, divide both numbers into one, which gives:

AUD/EUR 0.5505–0.5508

The reasoning behind the requirement that the original bid and offer rates be reversed should be clear if the original quotation is considered. In the original EUR/AUD quote, the dealer's bid rate is the rate at which the dealer would buy the EUR. The other way of seeing that transaction is that if the dealer is buying the EUR, it is the AUD that is being sold; that is, 'dealer buys EUR' is equivalent to 'dealer sells AUD'. Thus the bid rate in the original quote is the number relevant to the offer rate in the transposed situation.

CHAPTER 18

Page 608 Last bullet point on page

Change to:

- 'S&P/ASX200 index'

Page 610 Second bullet point on page

- 'Sydney Futures Exchange (SFE): S&P/ASX200 Index, which is the weighted index of the top 200 shares listed on the Australian Stock Exchange (ASX)'

Page 610/11 Last paragraph/first paragraph

Change to:

In the Australian market, the SFE currently trades in the following financial futures contracts:

- thirty-day interbank cash rate [new bullet point]
- ninety-day bank-accepted bills
- three-year Commonwealth Treasury bonds
- ten-year Commonwealth Treasury bonds
- S&P/ASX200 index
- individually [delete 'publicly'] listed company shares [delete rest of bullet point]
- Australian dollar [new bullet point]
- three-year interest rate swap [new bullet point]
- ten-year interest rate swap. [new bullet point]

The SFE also trades option contracts on many of its futures contracts. [Delete 'bank-accepted bills, Commonwealth Treasury bonds and S&P/ASX All Ordinaries share price index'.] Contracts are also available (in conjunction with other international futures exchanges, including the LIFFE and the New York Commodity Exchange) in US Treasury bonds, Eurodollars and gold. 'Survival of the fittest' is well demonstrated in the Australian futures market. Financial futures contracts that have not attracted sufficient trading volumes include contracts in two-year Treasury bonds, five-year and ten-year Australian semi-government bonds.' [Delete ', and AUD/USD currency contracts' from the end of the sentence.]

Page 617 First paragraph under '18.6.4 Hedging the value of a share portfolio' heading

Change to:

The final illustration, again highly simplified, involves the use of the SFE SPI 200 index futures contract to hedge the value of a share portfolio. It is assumed that an investment fund has \$41 million in a well-diversified portfolio of Australian shares. The fund managers have formed the view that the share market will come under selling pressure over the next four months. The SFE SPI 200 index futures contract could be used to cover the value of the portfolio against an expected drop in share prices.

Page 618 Table 18.6, top left-hand cell

Replace 'All Ordinaries' with 'S&P/ASX200'.

Table 18.6, top right-hand cell

Replace 'All Ordinaries share price' with 'SFE SPI 200'.

Table 18.6, bottom left-hand cell

Replace 'All Ordinaries' with 'S&P/ASX200'.

Table 18.6, note (a)

Replace 'All Ordinaries share price' with 'SFE SPI 200'

Page 619

Table 18.7, left-hand column, fourth row

Replace 'S&P/ASX All Ordinaries share price' with 'SFE SPI 200'.

Page 621

Second paragraph under '18.7.4 Cross-commodity hedging' heading, second sentence

Replace 'S&P/ASX All Ordinaries share price' with 'SFE SPI 200'.

Page 632

Essay Question 12; second, third and fourth sentences

Change to:

The manager decides to use the SFE SPI 200 index futures contract to manage an exposure to a forecast decline in share prices. The S&P/ASX200 index is currently at 3215. In three months' time the index is at 2950.

Page 647

Fourth sentence under 'Options on futures contracts' heading

Change to:

For example, options are traded on the following futures contracts:

- ninety-day bank-accepted bills
- SFE SPI 200 index
- ...

GLOSSARY

Page 715

Change 'liquidity preference theory' entry to 'liquidity premium theory'.

INDEX

Page 724

Delete the 'All Ordinaries price index' entry altogether.

Page 733

To the 'S&P/ASX200 index' entry, add the following page numbers:

229, 608, 610, 611