Errata for Asset Pricing and Portfolio Choice Theory

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1. p.13. 5th line from the bottom. Delete the sentence "Mean independence implies that $\tilde{\varepsilon}$ has a zero mean even when one knows the realization of $\tilde{y}$ and regardless of what realization of $\tilde{y}$ occurs" (because mean independence is defined on p. 13 as the mean being independent of conditioning information, not the mean being zero independent of conditioning information).

2. p.19. Exercise 1.6. To make the exercise more interesting, assume $\tilde{w}$ and $\tilde{x}$ have a joint normal distribution (this is assumed in the solution manual).

3. p.38. After equation (2.30). "More succinctly, let X be the $n \times k$–matrix..." (X not transposed).

4. p.39. FOC for (2.35) should be: $u'(w_j)\text{prob}_j = \gamma q_j$ ('prob_j' missing).

5. p.70. Equations (4.6a) and (4.6b). It should be $\tilde{m}$ and not m (three occurrences).

6. pp.98–99. Throughout part (c), π^* should be $\bar{\pi}$.

7. p.110. Last equation in display mode. Missing ψ_j in front of $\text{cov}(\tilde{R}_0, \tilde{f}_j - \tilde{x})$.

8. p.114. After first equation in display mode. $\text{var}(\epsilon_i)$ should be $\text{var}(\tilde{\varepsilon}_i)$.

9. p.118. Exercise 6.5, second line. "[...] that is $\tilde{R}_* = a + b'\tilde{F}$." (Subscript "$_*$" is missing for $\tilde{R}$).

10. p.138. Equation (8.5). Summation should be $\sum_{s=t+1}^{T}$, not $\sum_{s=t}^{T}$.

11. p.141. Last equation. The term of the second summation should be $E_t[M_s Y_s]$ and not $E_t[M_{s+1}Y_{s+1}]$.

12. p.152. Last two equations in display mode. The expectation should be $E_\tau[\cdot]$ and not $E_t[\cdot]$.

13. p.170. Second and third equations. Parentheses missing in $E[J(W_1^*)]$.

14. p.184. Equation (10.21) summation should be $\sum_{j=1}^{\ell}$, not $\sum_{j=1}^{k}$

15. p.190. Second equation in display mode should be

$$\frac{\hat{u}_t'(C_t)}{\hat{u}_0'(C_0)}$$

instead of

$$\frac{\hat{u}_{t'}(C_t)}{\hat{u}_0(C_0)}$$

16. p.210. Last equation should be $R_u = R_0 \exp\left(\int_0^u r_t dt\right)$. The upper bound of the integral should be u, not t.

*Lorenzo Garlappi spotted almost all of the errors listed here. I am very grateful for his careful and thorough reading of the book.

17. p.216. Last sentence. Reference to Itô's formula should be (12.15") and not (12.12).

18. p.223. Second to last equation in display mode should be

$$(dZ_t)(dZ_t)' = L_t^{-1}A_t\Sigma_t A_t'(L_t')^{-1}dt = L_t^{-1}L_tL_t'(L_t')^{-1}dt = Idt.$$

The "dt's" are missing.

19. p.225. Problem 12.2, part (a). Definition of X_t should be $X_t = \int_0^t r_s ds$ and not $X_t = \int_0^u r_s ds$

20. p.250. Problem 13.1. In the "Note" at the end of the question it should be $r^f < r^d$ and not $r^* < r$.

21. p.261. Equation after "To state this in a somewhat more rigorous way,..." (mid page). The index of integration should be s and not t, i.e. the integral should read $\int_t^T e^{-\delta s}u(C_s^*)ds$.

22. p.276. Problem 14.3, one row from the bottom of the page. It should be $\pi = \Sigma^{-1}(\mu - r\mathbf{1})$. The $\mathbf{1}$ is missing.

23. p.277. Problem 14.3, part (b) and Problem 14.4, part (b). The transversality condition should be

$$\lim_{T\to\infty} E\left[e^{-\delta T}J(W_T^*)\right] = 0$$

instead of

$$\lim_{T\to\infty} E\left[e^{-\delta t}J(W_T^*)\right] = 0.$$

24. p.280. Problem 14.9. There are two 'part (a)' in the question. The second should be '(b)'.

25. p.284. Second line from the top. $R_0 = 1$, not $R_0 = 0$.

26. p.313. Second line from the bottom. It should be "As noted in Section 16.1" and not "As noted in Section 15.4".

27. p.315. Second full paragraph, last sentence. It should be $M^*S^* = MS/S_{20}$ and not $M^*S^* = MS$.

28. p.323. Third line from the top. "Denote the conditional probabilities given date-t information...".

29. p.338. After equation (17.11b). It should be "Its unique solution subject to the boundary condition $\beta(0) = 0$" instead of "Its unique solution subject to the boundary condition $b(0) = 0$".

30. p.340. First paragraph, last sentence. "In any single factor affine model, the single factor can be taken to be the short rate...".

31. p.344. Equation (17.25). The integral should be $\int_0^{u-s} f_s(s+\tau)d\tau$ instead of $\int_s^u f_s(s+\tau)d\tau$.

32. p.347. Un-numbered equation after equation (17.33), second line. It should be $-f_s(s)$ instead of $-f_s^s$.

33. p.364: from the top in the first formula, "J" should be "H"

34. p.369: in Exercise 18.1 (b), "J" should be "H".

35. p.399: from the top in the second formula, a ")" is missing before the first "da" and another ")" is missing before "]da".

36. p.441. After equation (22.7). It should be $0 < \alpha < 1$ instead of just $\alpha < 1$.

37. p.450. The K_0 in equation (22.25) and k_0 just below (22.25) should be the same (either both K_0 or both k_0). See also the penultimate paragraph on p. 452.

38. p.479. Reference to Tobin (1969). Delete Jessica! How did she get there???