Corrections to the first printing of (Thanks to James Zeitler, and other students and colleagues for pointing out some of them):

***FINANCIAL ECONOMICS, RISK AND INFORMATION: AN INTRODUCTION TO METHODS AND MODELS***

***by Marcelo Bianconi***

As of January 26, 2005:

(i) p. vii, Foreward: student name Paul Nmeke is Paul Mwake (misspelled).

(ii) p. 40, Chapter 1: Equation numbers (1.81), (1.82) are missing: "...evolution of the state in (1.80), or

$$\underset{\{u_t\}_{t=0}^{\infty}}{Max} \; \Sigma_{t=0}^{\infty} \; \beta^t \; r(x_t, u_t) \qquad (1.81)$$

$$\text{subject to} \quad x_{t+1} = g(x_t, u_t), \quad x_0 \text{ given.}$$

The solution to the recursive problem involves finding a contingency plan, or policy function that maps the state into the control, or

$$u_t = h(x_t) \qquad (1.82)"$$

(iii) p. 68, Chapter 2, section 2.2: next equations after equation (2.1): "...or

$$X_{0i} = w_i X_0 \quad with \quad \Sigma_{i=1}^{n} w_i = 1."$$

<u>not</u> $\Sigma_{i=1}^{n} w_i = 2$.

(iv) p. 114, Chapter 3, section 3.3: the definitions are for measures of absolute and relative risk aversion, <u>not *constant*</u> absolute and relative risk aversion (change in notation led to inaccurate writing).

(v) p. 135, Chapter 3, Notes on the Literature: the following is missing - "The case of Lognormal payoffs with power utility index is presented in Campbell and Viceira (2000), Chapter 2."

(vi) p. 291, Chapter 6, after the first four equation, the first line after the fifth set of equations: "... where the inequality is strict as long as $c(g)$ is not constant for all $g$." <u>Not</u> $n(g)$.

(vii) p. 342, Chapter 7, equation (7.16b): In the denominator, the term to the power -1/2 is var(sT)/var(FT); the "/" division sign between var(sT) and var(FT) is missing: or

$$h^* = -\rho_{s,F} \, w / \, [var(s_T) / var(F_T)]^{-1/2} \qquad (7.16b)$$

(viii) p. 397, Chapter 7: the equation after (7.162), $R_{t+1}$ is missing: "... or using (7.134b),

$$lim_{t\to\infty} E_t [\beta^{t+1} u'(c_{t+1}) R_{t+1} b_{t+1}] = 0."$$

(ix) p. 428, Chapter 7, 2nd paragraph: "...for power utility (7.198)." Not (7.298), there is no equation (7.298).

(x) p. 500, Chapter 8, end of first paragraph: "...flow budget constraint from (8.131a,b) as the evolution..." not (8.213a,b) (there aren't equations (8.213a,b) in the chapter).

(xi) p. 509, Chapter 8, end of last paragraph, this note is missing: "The transversality condition for continuous time models of separate risk aversion and intertemporal substitution is analyzed in Smith, William T. (1996) "Feasibility and transversality conditions for models of portfolio choice with non-expected utility in continuous time." *Economics Letters*, 53, 123-131."

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