

LeRoy-Werner errata sheet

November 13, 2005

P. 12, Last paragraph, instead of “concave expects utility,” there should be “concave expected utility.”

P. 19, 5” down, ”5” should be ”6”

P. 23, 3” down, the sentence ”Because there are no redundant securities ... security prices.” should be deleted.

P. 36, 6” down, after ”and $p_3 = 1/3$.” there should be added ”(or any scale multiple)”.

P. 48, 1” from the bottom, the sentence ”For the extension to remain ...” should read ”For the extension to remain strictly positive (positive), the chosen value π must be such that all payoffs greater than \hat{z} have prices that are strictly greater (greater) than π , and all payoffs less than \hat{z} have prices that are strictly less (less) than \hat{z} .”

P. 54, Theorem 5.5.1 holds true only when security prices exclude arbitrage. Thus, “strong arbitrage” and “positive,” both in parenthesis, should be deleted. Further, “Proposition 5.3.4” and “positive” in parenthesis should be deleted from the proof.

P. 56, twice, ”Chapter 3” should be ”Chapter 2”.

P. 59, “6.2.1” at the end of the paragraph following Farkas’ Lemma should be “6.2.2.” Also, “6.2.2” at the end of the paragraph following Stiemke’s Lemma should be “6.2.1.”

P. 59 bottom, in the phrase ”that the no arbitrage”, ”the” should be deleted.

P. 69, in the middle of the page, “Theorem 7.5.5” should be “Theorem 7.3.1.”

P. 71, The terms “ $0.25 \min\{z_1, 0\}$ ” and “ $0.25 \min\{z_2, 0\}$ ” in (7.32) should be with “+”. Also “ $0.25 \min\{z_s, 0\}$ ” in the line following (7.32) should be with “+”.

P. 89, replace the sentence ”Therefore, there exists a supremum ...” with ”Therefore, there exists a maximum denoted by $\bar{\lambda}$ Let $\underline{\lambda}$ denote that infimum.”

P. 89, just before (9.6), replace $\underline{\lambda} < \lambda^* < \bar{\lambda}$ by $\bar{\lambda} < \lambda^* < \underline{\lambda}$ and just after (9.6), replace $\underline{\lambda} < \lambda < \bar{\lambda}$ by $\bar{\lambda} < \lambda < \underline{\lambda}$.

P. 96, In the sentence ”If α equals zero, relative risk aversion equals γ ”, replace γ with $1/\gamma$.

P. 97, in the phrase ”the measure of (relative (date-1) risk aversion is γ ”, replace γ with $1/\gamma$.

P. 97, the elasticity of substitution should be γ , not $1/\gamma$.

P. 100, first sentence of 10.3, ”Section 10.1” should be ”Section 10.2”.

P. 103, Eq. 10.16, replace $>$ by \geq .

P. 104, Eq. 10.17, replace $>$ by \geq .

P. 105, middle, ”who prefers z to y ” should be ”who prefers y to z ”.

P. 125, after (12.25) change $a^* \geq 0$ to $a^* \leq 0$.

P. 129, the line before (13.6), 10.5.2 should be 10.5.1.

P. 164, middle of page, ”covex” should be ”convex”.

P.171, the last line, delete second “the” and replace “x, y” with “x, y, z.”

P. 173, eq. 17.8 should read

$$\sum_{i=1}^n \lambda_i^2 \|z_i\|^2 = \left\| \sum_{i=1}^n \lambda_i z_i \right\|^2 = 0. \quad (1)$$

(in the text the 2 in the exponent is deleted twice).

P. 180, The right-hand side of equation (17.47) should be $E\left(\frac{\partial_1 v}{E(\partial_0 v)} z\right)$.

P. 181 Equation (17.48) is false. Substituting $z = k_q$ in (17.46) gives

$$E\left(\frac{q}{\pi} k_e\right) = E(k_q). \quad (2)$$

- P. 184, line 4, the expression $E(\varepsilon)E(z^\varepsilon) = 0$ should be preceded by a minus sign.
- P. 190, RHS of eq. (18.20) should be preceded by a minus sign.
- P. 198, $c_{1\varepsilon}^i$ at the end of the line right after equation (19.15) should be changed to $c_{1\mathcal{N}}^i$.
- P. 199, Replace "and (19.2) imply that" with "and (19.10) imply that"
- P. 200, Replace "and is variance averse" to "and is strictly variance averse".
- P. 211, just before Theorem 20.6.1, insert "strictly increasing" in "...with common probabilities and with **strictly increasing** differentiable ..."
- P. 213, one line from bottom, 15.4 should be 16.4.
- P. 254, "Example 22.3.1" should be replaced by "Section 23.5"
- P. 254, before (25.36), Example 18.4.2. should be replaced by "Section 23.5".
- P. 274, line 3, r_μ should be r_λ .
- P. 276, publication year of Campbell et al should be 1997.