CFA Society United Kingdom

CFA SOCIETY UNITED KINGDOM

WE GROW TALENT

IMC OTM v.22 Errata & Addendum for Units 1 and 2

<table>
<tr><th>Edition / Volume</th><th>Page number</th><th>Correction</th></tr>
<tr><td>1</td><td>11</td><td>'Finally, a further levy of £1 on all purchases and sales on excess of £10,000 is charged to finance the Takeover Panel (the PTM levy).'

Should read:

''Finally, a further levy of £1.50 on all purchases and sales on excess of £10,000 is charged to finance the Takeover Panel (the PTM levy).'</td></tr>
<tr><td>1</td><td>13</td><td>'A further levy of £1 on all purchases and sales of shares in excess of £10,000 is levied to finance the PTM levy.'

Should read:

'A further levy of £1.50 on all purchases and sales of shares in excess of £10,000 is levied to finance the PTM levy.'</td></tr>
<tr><td>1</td><td>13</td><td><table><tr><td>'PTM levy for two trades</td><td>£2.00</td></tr><tr><td>Net cost (absolute)</td><td>£70.46</td></tr><tr><td>Net cost (percentage)</td><td>0.66%'</td></tr></table>
Should read:

<table><tr><td>'PTM levy for two trades</td><td>£3.00</td></tr><tr><td>Net cost (absolute)</td><td>£71.46</td></tr><tr><td>Net cost (percentage)</td><td>0.67%'</td></tr></table></td></tr>
<tr><td>1</td><td>25</td><td>'PDMRs and their connected persons must notify the listed company concerned and the FCA within three business days of a transaction (both sale and purchase of any value).'

Should read:

'PDMRs and their connected persons must notify the listed company concerned and the FCA within four business days of a transaction (both sale and purchase of any value).'</td></tr>
</table>

<table>
<tr><td>1</td><td>95</td><td>'The turnover test is met if the target company has a UK turnover of £100m or more'

Should read:

'The turnover test is met if the target company has a UK turnover of £70m or more'</td></tr>
<tr><td>1</td><td>271</td><td><table><tr><td colspan="3">'Pensions</td></tr><tr><td>Annual allowance</td><td>£40,000</td><td>£60,000'</td></tr></table>
Should read:

<table><tr><td colspan="3">'Pensions:</td></tr><tr><td>Annual allowance</td><td>£60,000</td><td>£60,000'</td></tr></table></td></tr>
<tr><td>1</td><td>306</td><td>85. Given that higher-rate taxpayers prefer capital gains to income, which type of fixed income securities may pension funds prefer to avoid?

Should read:

85. Given that higher-rate taxpayers prefer capital gains to income, which type of fixed income securities may such an investor prefer to avoid (assume the investment is outside a tax wrapper)?</td></tr>
<tr><td>1</td><td>311</td><td>'Jeremy is a higher-rate taxpayer so CGT 24,500 × 28%
Answer: £6,860
(Note: tax rate = 28% as it is a sale of residential property that is not a main residence)'

Should read:

'Jeremy is a higher-rate taxpayer so CGT 24,500 × 24%
Answer: £5,880
(Note: tax rate = 24% as it is a sale of residential property that is not a main residence)'</td></tr>
<tr><td>2</td><td>ix</td><td>'8.3.2 Explain the concept of normal and subnormal levels of profit'

Should read:

'8.3.2 Explain the concept of normal and supernormal levels of profit'</td></tr>
</table>

2	21	Figure 7.9 'Mean Median Mean' Should read: 'Mode Median Mean'
2	35	$$r = \frac{\sum Y_i \hat{Y} - n\bar{Y}_i\bar{\hat{Y}}}{\left[\left(\sum Y_i^2 - n\bar{Y}^2\right)\left(\sum \hat{Y}_i^2 - n\bar{\hat{Y}}^2\right)\right]^{\frac{1}{2}}}$$ Should read: $$r = \frac{\sum Y_i \hat{Y}_i - n\bar{Y}\bar{\hat{Y}}}{[(\sum Y_i^2 - n\bar{Y}^2)(\sum \hat{Y}_i^2 - n\bar{\hat{Y}}^2)]^{1/2}}$$
2	36	A simple macroeconomic forecasting equation for consumer prices index (CPI) inflation might look like this: (t + 1) = a + b = c Should read: A simple macroeconomic forecasting equation for consumer prices index (CPI) inflation might look like this: CPI inflation next year (t + 1) = a + b (wage inflation this year, i.e. at t) + c (commodity price inflation this year)
2	44	'The second value is calculated thus:' Should read: 'The second value is calculated thus: $\text{Second value} = 100 \times \left[\left(\frac{108}{100}\right) \times \left(\frac{95}{100}\right)\right]^{1/2} = 101.29$'

2	50	'Now, what is the value of this deposit after three years if interest is paid annually? Here: r = 0.1; T = 3; D = £100; and m = 1. D_3 = £100 × [1 + 0.1]^3 = £100 × (1.10)^3 = £100 × 1.334 = £134.49' Should read: 'Now, what is the value of this deposit after three years if interest is paid annually? Here: r = 0.1; T = 3; D = £100; and m = 1. D_3 = £100 × [1 + 0.1]^3 = £100 × (1.10)^3 = £100 × 1.331 = £133.10'
2	160	Suppose initially that good X costs £1 in the UK and US$2 in the USA. Both countries experience a rate of inflation of 10% over the next year. The price of good X rises in the UK to £1.10 and to US$2.20 in the USA. Now: £1.10 = good X = US$2.20 Dividing through by 1.1 gives: $\frac{£1.10}{1.1} = \frac{US\$2.10}{1.1}$ Should read: Suppose initially that good X costs £1 in the UK and US$2 in the USA. Both countries experience a rate of inflation of 10% over the next year. The price of good X rises in the UK to £1.10 and to US$2.20 in the USA. Now: £1.10 = good X = US$2.20 Dividing through by 1.1 gives: $\frac{£1.10}{1.1} = \frac{US\$2.20}{1.1}$

2	177	24. (a) The international Fisher effect: $\frac{(1+R_{£})}{(1+E_{(i£)})} = \frac{(1+R_{\$})}{(1+E_{(i\$)})}$ $\frac{1.055}{(1+E_{(i£)})} = \frac{1.04}{1.015}$ Expected UK inflation $E_{(i£)} = 2.96\%$ Real interest rates should be equal in both countries. In the USA, the real rate is: $x = \frac{(1+0.04)}{(1+0.015)} = 2.46\%$ Thus, the UK real rate should be: $1.055 \div x = 2.96\%$ Should read: 24. (a) The international Fisher effect: $\frac{(1+R_{£})}{(1+E_{(i£)})} = \frac{(1+R_{\$})}{(1+E_{(i\$)})}$ $\frac{1.055}{(1+E_{(i£)})} = \frac{1.04}{1.015}$ $\frac{1.055}{(1+E_{(i£)})} = 1.0246$ $(1+E_{(i£)}) = \frac{1.055}{1.0246}$ $(1+E_{(i£)}) = 1.0296$ Expected UK inflation $E_{(i£)} = 2.96\%$ Real interest rates should be equal in both countries. In the USA, the real rate is: $x = \frac{(1+0.04)}{(1+0.015)} = 2.46\%$ Thus, the UK real rate should be: $1.055 \div x = 2.96\%$
2	178	25. (c) Interest parity: $(F/E) = \frac{(1+\text{UK interest rate})}{(1+\text{US interest rate})}$ Should read: $(E/F) = \frac{(1+\text{UK interest rate})}{(1+\text{US interest rate})}$

<table>
<tr>
<td>2</td>
<td>183</td>
<td>
<table>
<tr><td></td><td>'Small</td><td>Medium-sized</td></tr>
<tr><td>Turnover</td><td><£6.5m</td><td><£25.9m</td></tr>
<tr><td>Balance sheet total</td><td><£3.26m</td><td><£12.9m</td></tr>
<tr><td>Average number of employees</td><td><50</td><td><250'</td></tr>
</table>
Should read:
<table>
<tr><td></td><td>'Small</td><td>Medium-sized</td></tr>
<tr><td>Turnover</td><td><£10.2m</td><td><£36m</td></tr>
<tr><td>Balance sheet total</td><td><£5.1m</td><td><£18m</td></tr>
<tr><td>Average number of employees</td><td><50</td><td><250'</td></tr>
</table>
</td>
</tr>
<tr>
<td>2</td>
<td>226</td>
<td>
5. (a)
$$\text{Annual depreciation expense} = \frac{\text{purchase price of machine} - \text{expected residual value}}{\text{number of years}}$$
$$= \frac{£50{,}000 - £2{,}000}{4}$$
$$= £12{,}000 \text{ per year}$$
$$3 \times £12{,}000$$
$$= £36{,}000$$
Should read:
$$\text{Annual depreciation expense} = \frac{\text{purchase price of machine} - \text{expected residual value}}{\text{number of years}}$$
$$= \frac{£50{,}000 - £2{,}000}{4}$$
$$= £12{,}000 \text{ per year}$$
$$\text{Accumulated depreciation after 3 years} = 3 \times £12{,}000$$
$$= £36{,}000$$
</td>
</tr>
<tr>
<td>2</td>
<td>387</td>
<td>
$$\text{Active share} = \frac{1}{2}\left(\text{abs}\left(\sum_{i=1}^{N} \text{weight}_{\text{portfolio},i} - \text{weight}_{\text{benchmark},i}\right)\right)$$
Should read:
$$\text{Active share} = \frac{1}{2}\left(\sum_{i=1}^{N} \text{abs}\left(\text{weight}_{\text{portfolio},i} - \text{weight}_{\text{benchmark},i}\right)\right)$$
</td>
</tr>
</table>

2	406	$TE = \sqrt{\frac{\sum_{i=1}^{N}(R_p - R_B)^2}{N-1}}$ $= \frac{(10-6)^2 + (15-12)^2 + (-5-(-2))^2 + (6-6)^2 + (8-5)^2}{5-1}$ Should read: $TE = \sqrt{\frac{\sum_{i=1}^{N}(R_p - R_B)^2}{N-1}}$ $= \sqrt{\frac{(10-6)^2 + (15-12)^2 + (-5-(-2))^2 + (6-6)^2 + (8-5)^2}{5-1}}$
2	466	$'Return = \frac{(745-704)\ x\ 100}{704} = 0.07244 \times 100\% = 7.244\%'$ Should read: $'Return = \frac{(745-704)+10}{704} \times 100\% = 0.07244 \times 100\% = 7.244\%'$
2	491	'Sharpe measure$_{fund\ B}$ $= \frac{R_B - R_f}{\sigma_B}$ $= \frac{12\% - 4\%}{8\%}$ = 1' Should read: 'Sharpe measure$_{fund\ B}$ $= \frac{R_B - R_f}{\sigma_B}$ $= \frac{12\% - 4\%}{18\%}$ = 0.44'

2	520	35. Quick ratio $= \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$ $= \frac{£0.5\text{m} + £1.0\text{m}}{£0.5\text{m}}$ $= 3.0$ Should read: Quick ratio = CASH + TRADE RECEIVABLES / CURRENT LIABILITIES (HERE TRADE PAYABLES) $= \frac{£0.5\text{m} + £1.0\text{m}}{£0.5\text{m}}$ = 3.0
2	522	75. (d) Price elasticity of demand $= \frac{\%\text{ change in quantity of the good demanded}}{\%\text{ change in price}}$ $= \frac{-20\%}{+5\%}$ Should read: 75. (d) Price elasticity of demand $= \frac{\%\text{ change in quantity of the good demanded}}{\%\text{ change in price}}$ $= \frac{-20\%}{+5\%}$ $= -4$

2	524	100. (a) Price to book ratios: Share A: $\frac{250p}{360p} = 0.69$ Share B: $\frac{156p}{150p} = 1.04$ Share C: $\frac{720p}{350p} = 9.60$ Share D: $\frac{462p}{120p} = 3.85$ Share A has the lowest price to book ratio. Should read: 100. (a) Price to book ratios: Share A: $\frac{250p}{360p} = 0.69$ Share B: $\frac{156p}{150p} = 1.04$ Share C: $\frac{720p}{75p} = 9.60$ Share D: $\frac{462p}{120p} = 3.85$ Share A has the lowest price to book ratio.
2	525	Question 105. (c) $\text{Share C earnings per share} = \frac{\text{Earnings}}{\text{Issued share}}$ $= \frac{£10m}{69.44m}$ $= 69.44m$ Should read: $\text{Share C earnings per share} = \frac{\text{Earnings}}{\text{Issued share}}$ $= \frac{£10m}{69.44m}$ $= £0.144$