

# *Microfoundations of Financial Economics*

## List of Errors

Yvan Lengwiler

Current Version: January 12, 2006

This is a collection of known errors in the book “Microfoundations of Financial Economics,” Princeton University Press, 2004. Text that should be removed is ~~striked-out~~, text that should be added is underlined.

*Page 35, Problem 2.2 (c):* [...] Draw an arrow into your graph starting from  $\omega = (3, 2)$  and ending at  $\omega + \nabla u(\omega) = \text{~~(6,6)~~ (5,5)}$  [...]

*Page 120, 3rd paragraph:* Before we discuss the result, note that in case (i) of ~~Box 5.4~~ Box 5.5 a risk-free asset would be redundant: [...]

*Page 120, Box 5.5, Item (ii):* there is also a risk-free asset and there is a group of risk-neutral agents that are jointly rich enough to absorb all the aggregate risk without running into a non-negativity constraint, [...]

*Page 128, bottom:* According to this formula, which follows simply from the ~~first-order conditions of the integrated consumption-portfolio optimization problem~~ law of one price, [...]

*Page 129:* There is a  $p$  instead of a  $\rho$  in the displayed formula above eq. (5.33),

$$\frac{\tilde{\alpha}_s}{\pi_s} = \rho M_s = \frac{\delta}{\beta} \cdot \frac{v'(w^s)}{v'(w^0)}.$$

*Page 153, footnote 9:* [...] any node in the ~~game~~ uncertainty tree [...]

*Page 234ff:* There is a mistake in (8.45) which affects the computations and text up to page 237. Read this section with enhanced scepticism. The problem will be addressed in a possible second edition.