

Subject SP5

Corrections to 2020 study material

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This document contains details of any errors and ambiguities in the Subject SP5 study materials for the 2020 exams that have been brought to our attention. We will incorporate these changes in the study material each year. We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses. If you have any such comments on this course please email them to SP5@bpp.com.

This document was last updated on **31 October 2019**.

1 SP5 ASET

September 2014 Solutions

Question 6

The explanation of how the MWRRs have been calculated contains an error. The solution should contain the following:

Accumulating cashflows we can derive the MWRR (IRR) as the interest rate in the following equation, which uses the approximation $(1+i)^x \approx 1+xi$:

$$4200 = 3600(1+i) + 56(1+0.75i) + 30(1+0.5i) + 187(1+0.25i) - 52$$

Solving gives $i = 10.23\%$ as stated.

If, as is shown in the ASET solution, we *discount* the cashflows then the equation to solve becomes:

$$3600 = -56(1-0.25i) - 30(1-0.5i) - 187(1-0.75i) + (4200+52)(1-i)$$

The assumption that $(1+i)^{-1} \approx 1-i$ which is used here introduced a significant error, which leads to incorrect solutions. This equation solves for $i = 9.28\%$ which is different from the result used by the examiners.