

“We are not a speculator but investor”

Eco352 Finance

11/13-15/1/2018 in-class activity- Ch. 11 Risk and Rates of Return

Name _____

1. **(Portfolio returns)** Suppose security analysts estimate that the following returns could be expected on four large companies:

Company	Expected return
At&t	8%
Citigroup	13%
General electric	19%
Microsoft	16%

If we formed a \$100,000 portfolio, investing \$25,000 in each of these four stocks, what would be our expected portfolio return? (textbook, p 407)

2. **(The market risk premium)** let's assume that at current time, Treasury bonds yield $r_{RF}=5\%$ and an average share of stock has a required return of $r_M=11\%$. In this case, what is the market risk premium?
3. **(risk premium for stock)** for example, if $\beta=0.5$ and $RP_M=6\%$, what is risk premium for stock j?
4. Draw show the **SML (security market line)** when $r_{RF}=5\%$ and $r_M=11\%$ with $\beta_1 = 0.5$, $\beta_2=1.0$, $\beta_3= 2.0$