



SCHOOL OF ACCOUNTING AND FINANCE

FACULTY OF BUSINESS, HOSPITALITY AND HUMANITIES

INDIVIDUAL ASSIGNMENT 2

COURSE NAME : INTRODUCTION TO FINANCE
COURSE CODE : BA 3105
LECTURER : MS. MIMI SURIATY BINTI ABDUL RANI
TOPIC OF ASSIGNMENT : RISK AND RETURN

ASSIGNMENT OBJECTIVE :

1. Able to assess and apply a range of disciplines, techniques and approaches in problem solving.
2. Able to adopt an integrative perspective in the identification, analysis and resolution to problem.

COURSEWORK	WEIGHTAGE (%)	LEARNING OUTCOME (REFER TO COURSE OUTCOME)		
		CO1	CO2	CO3
PAIR ASSIGNMENT	10	-	X	X

MARKS ALLOCATION :

COURSEWORK	WEIGHTAGE (%)
PAIR ASSIGNMENT REPORT - Organization overall, Main idea, Contents, Sentence structure, Format, Grammar	10
TOTAL (%)	10

DESCRIPTION OF COURSEWORK : ANSWER ALL QUESTIONS**RISK AND RETURN**

1. Suppose you have invested only in two stocks, A and B. You expect that returns on the stocks depend on the following three states of economy, which are equally likely to happen.

State of Economy	Return on Stock A (%)	Return on Stock B (%)
Bear	7.3%	-4.7%
Normal	11.5	5.4
Bull	16.6	24.3

- Calculate the expected return of each stock.
 - Calculate the standard deviation of returns of each stock.
 - Calculate the covariance and correlation between the two stocks.
2. Miss Jenny is considering two securities, A and B, and the relevant information is given below:

State of Economy	Probability	Return on Security A (%)	Return on Security B (%)
Bear	0.6	3.0%	6.5%
Bull	0.4	15.0%	6.5

- Calculate the expected returns and standard deviations of the two securities.
- Suppose Miss Jenny invested \$2,500 in Security A and \$3,500 in security B. Calculate the expected return and standard deviation of her portfolio.
- Suppose Miss Jenny borrowed from her friend 40 shares of security B, which is currently sold at \$50, and sold all shares of the security. (She promised her friend she would pay her back in a year with the same number of shares of security B.). Then she bought security A with the proceeds obtained in the sales of security B shares and the cash of \$6,000 she owned. Calculate the expected return and standard deviation of the portfolio.

3. Suppose the current risk-free is 7.6 percent. CDE Inc. stock has a beta of 1.7 and an expected return of 16.7 percent. (Assume the CAPM is true)
- What is the risk premium on the market?
 - ABC Industries stock has a beta of 1.8. What is the expected return on the ABC stock?
 - Suppose you have invested \$100,000 in a portfolio of CDE and ABC, and the beta of the portfolio is 1.77. How much did you invest in each stock? what is the expected return on the portfolio?
4. Consider the following two stocks:

Stock i	Beta	Expected Return
A	1.4	25%
B	0.7	14%

Assume the CAPM holds. Based upon the CAPM, what is the return on the market? What is the risk-free rate?

5. Nina has decided to invest her wealth equally across the three following assets. What are her expected returns and the risk by investing in the three assets? How does this compare to investing in Asset M alone? *Hint: Find the standard deviation of Asset M and of the portfolio equally invested in Asset M, N, and O.*

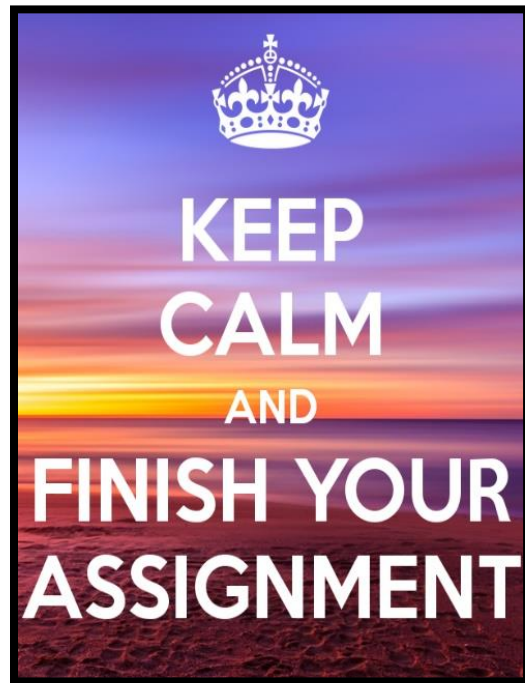
States	Probability	Asset M Return	Asset N Return	Asset O Return
Boom	30%	12%	19%	2%
Normal	50%	8%	11%	8%
Recession	20%	2%	-2%	12%

FORMAT OF INDIVIDUAL ASSIGNMENT

- ✦ Cover and contents of assignment must be typed neat on an A4 paper.
- ✦ For contents of assignment must **using 1.5 spacing between lines. Font size is 12** and font type is **Cambria** with **1" margins (top, bottom, sides)**.
- ✦ The **contents should be 3 - 5 pages** in length (not including the title page).
- ✦ All calculations must be done using Excel.
- ✦ For cover assignment please *refer the appendix 1*.

RULES

- ✦ Penalties for late submission is 5% for each day up to a maximum of five (5) days after the due date.
- ✦ No mark will be given for submission after the fifth days.
- ✦ Any form of plagiarism is strictly prohibited.



**** ALL THE BEST****

Appendix 1: Example of Cover Assignment



NILAI UNIVERSITY

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INTRODUCTION TO FINANCE

(BA 3105)

INDIVIDUAL ASSIGNMENT 2

STUDENT NAME :XXXXXXXX

STUDENT ID :XXXXXXXX

LECTURER NAME : MS. MIMI SURIATY BINTI HJ. ABDUL
RANI

SUBMISSION DATE : XXXXXXXXXXXX