Risk and Return

1.Two years ago, Conglomco stock ended at $73.02 per share. Last year, the stock paid a $0.34 per share dividend. Conglomco stock ended last year at $77.24. If you owned 200 shares of Conglomco stock, what were your dollar return and percent return last year?

2.Calculate the coefficient of variation for the following three stocks. Then rank them by their level of total risk, from highest to lowest:

•Conglomco has an average return of 11 percent and standard deviation of 24 percent.

•Supercorp has an average return of 16 percent and standard deviation of 37 percent.

•Megaorg has an average return of 10 percent and standard deviation of 29 percent.

3.Year-to-date, Conglomco has earned a −1.64 percent return, Supercorp has earned a 5.69 percent return, and Megaorg has earned a 0.23 percent return. If your portfolio is made up of 40 percent Conglomco stock, 30 percent Supercorp stock, and 30 percent Megaorg stock, what is your portfolio return?

4.Based on the probability and percentage of return for the three economic states in the table below, compute the expected return.

|  |  |  |
| --- | --- | --- |
| Economic State | Probability | Percentage of Return |
| Fast Growth | 0.10 | 60 |
| Slow Growth | 0.50 | 30 |
| Recession | 0.40 | -23 |

5.If the risk-free rate is 7 percent and the risk premium is 4 percent, what is the required return?

6.Suppose that the average annual return on the Standard and Poor's 500 Index from 1969 to 2005 was 14.8 percent. The average annual T-bill yield during the same period was 5.6 percent. What was the market risk premium during these 10 years?

7.Conglomco has a beta of 0.32. If the market return is expected to be 12 percent and the risk-free rate is 5 percent, what is Hastings' required return? Use the capital asset pricing model (CAPM) to calculate Conglomco's required return.

8.Calculate the beta of a portfolio that includes the following stocks:

•Conglomco stock, which has a beta of 3.9 and comprises 35 percent of the portfolio.

•Supercorp stock, which has a beta of 1.7 and comprises 25 percent of the portfolio.

•Megaorg stock, which has a beta of 0.3 and comprises 40 percent of the portfolio.