Unit 4

(25-1) Define the following terms, using graphs or equations to illustrate your answers wherever feasible:

1. Portfolio; feasible set; efficient portfolio; efficient frontier
2. Indifference curve; optimal portfolio
3. Capital Asset Pricing Model (CAPM); Capital Market Line (CML)
4. Characteristic line; beta coefficient, b
5. Arbitrage Pricing Theory (APT)

(25-2) An analyst has modeled the stock of Crisp Trucking using a two-factor APT model. The risk-free rate is 6%., the expected return on the first factor (r1) is 12% , and the expected return on the second factor (r2) is 8%, If bi1=0.7 and bi2= 0.9, what is Crisp’s required return?