C1. (Beta and required return) The riskless return is currently 6%, and Chicago Gear has estimatedthe contingent returns given here.

a. Calculate the expected returns on the stock market and on Chicago Gear stock.

b. What is Chicago Gear’s beta?

c. What is Chicago Gear’s required return according to the CAPM?

**REALIZED RETURN**

**State of the Market Probability that State Occurs Stock Market Chicago Gear**

Stagnant 0.20 (10%) (15%)

Slow growth 0.35 10 15

Average growth 0.30 15 25

Rapid growth 0.15 25 35