Written Assignment: Problems: 8-7, 8-10, 8-12

**8.7:** Suppose you are the money manager of a $4million investment fund. The fund consists of four stocks with the following investment and betas:

Stock investment Beta

A $ 400,000 1.50

B 600,000 (0.50)

C 1,000,000 1.25

D 2,000,000 0.75

If the market’s required rate of return is 40% and the risk-free rate is 6%, what is the fund’s required rate of return?

**8.10:** Bradford Manufacturing Company has a beta of 1.45,, while Farley Industry has a beta of 0.85. The required return on an index fund that holds the entire stock market is 12.0%. The risk free rate of interest is 5%. By how much does Bradford’s required return exceed Farley’s required return?

**8.12:** Suppose rRF = 9%, rM = 14%, and bi = 1.3

a. what is r(i), the required rate of return on stock i?

b. Now suppose that rRF (1) increase to 10% or (2) increases to 8%. The slope of the SML remains constant. How would this affect rM and r(i)?

c. Now assume that rRF remains at 9% but the rM (1) increase to 16% or (2) falls to 13%. The slope of the SML does not remain constant. How would these changes affect r(i)?