Please answer all questions with full explanations.

– Problem #1

Suppose you bought 100 shares of stock at an initial price of $73 per share. The stock paid a dividend of $0.88 per share during the following year, and the share price at the end of the year was $82.

Compute your total dollar return on this investment.

Does your answer change if you keep the stock instead of selling it? Why or why not?

– Problem #2

Looking back at Problem 12, suppose the call money rate is 6% and your broker charges you a spread of 1.25% over this rate. You hold the stock for six months and sell at a price of $53 per share. The company paid a dividend of $.25 per share the day before you sold your stock. What is your total dollar return from this investment? What is your effective annual rate of return?

Problem #3

You purchase 10 call option contracts with a strike price of $75 and a premium of $4.05. If the stock price at expiration is $83.61,

what is your dollar profit?

What if the stock price is $69.56?

Problem #4

You are going to invest in a stock mutual fund with a 5% front- end load and a 1.30% expense ratio. You also can invest in a money market mutual fund with a 5.2% return and an expense ratio of .20%.

If you plan to keep your investment for two years, what annual return must the stock mutual fund earn to exceed an investment in the money market fund?

What if your investment horizon is 10 years?