1. (*Capital asset pricing model*) MFI Inc. has a beta of .86. If the expected market return is 11.5 percent and the risk-free is 7.5 percent, which is the appropriate return of MFI (using the CAPM)?
2. (*Computing bolding-period returns*)
   1. From the price data here, compute the holding-period returns for Jazman and Solomon for periods 2 through 4.

|  |  |  |
| --- | --- | --- |
| **PERIOD** | **JAZMAN** | **SOLOMON** |
| 1 | $9 | $27 |
| 2 | 11 | 28 |
| 3 | 10 | 32 |
| 4 | 13 | 29 |

* 1. How would you interpret the meaning of a holding-period return?

1. (*Bondholder’ expected rate of return*) The market price is $900 for a 10-year bond ($1,000 par value) that pays percent interest (4 percent semiannually). What is the bond’s expected rate of return?
2. You own a bond that has a par value of $1,000 and matures in 5 years. It pays a 9 percent annual coupon rate. The bond currently sells for $1,200. What is the bond’s expected rate of return?
3. (*Bond valuation*) ExxonMobil 20-year bonds pay 9 percent interest annually on a $1,000 par value. If bonds sell at $945, what is the bond’s expected rate of return?
4. (*Bondholders’ expected rate of return*) Zenith Co.’s bonds mature in 12 years and pay 7 percent interest annually. If you purchase the bonds for $1,150 what is your expected rate of return?