**Week 2 – Assignment**

**Chapters 3 & 4**

***Instructions:*** *Calculate each exercise. Highlight the answer and provide explanations (100 words) to each of the answers along with any relevant calculations to receive credit. Your part in completing the assignment is to demonstrate an understanding and application of the concepts covered.*

1. A good measure of an investor’s risk exposure if she/he only holds a single asset in her portfolio is:

a. The expected value of the asset’s returns.

b. The standard deviation of possible returns on the asset.

c. The correlation coefficient with the market portfolio.

d. The normal probability distribution function.

1. The beta for ABM Industries is 1.50. Assuming that the nominal risk-free rate is 6.0% and that the return to the market is 9.0%, what is ABM’s required return?

a. 7.5%

b. 18.4%

c. 10.5%

d. 3.2%

1. Koda’s Manufacturing has a required return of 9.50%. If the market return is 13.0% and the nominal risk-free rate is 6.0%, what is Koda’s beta?

a. 0.5%

b. 8.3%

c. 7.2%

d. 2.2%

1. Which of the following items reflects the time value of money?

a. Real risk-free rate.

b. Inflation premium.

c. Default risk premium.

d. Liquidity premium.

Use the following data to answer questions 5 and 6. Assume the following premiums reflect current market conditions:

* + - r\* = 3.15%;
    - IP (1-year bonds) = 2.35%;
    - IP (3-year bonds) = 2.65%;
    - IP (5-year bonds) = 2.90%;
    - DRP (AAA corporate bonds) = 0.60%;
    - DRP (AA+ corporate bonds) = 0.85%;
    - LP (AAA corporate bonds) = 0.22%;
    - LP (AA+ corporate bonds) = 0.30%;
    - MRP = 0.1% × (t − 1) where t is the number of years to maturity.

1. Calculate the interest rate for a 1-year AA+ corporate bond.

a. 3.52%

b. 10.48%

c. 6.65%

d. 9.75%

1. Calculate the interest rate for a 5-year AA+ corporate bond.

a. 3.52%

b. 7.60%

c. 5.35%

d. 2.75%