

Rand Corporation has a 0.4 probability of a return of 0.4, a 0.3 probability of a rate of return of 0.08, and the remaining probability of a 0.77 rate of return. What is the expected rate of return of Rand Corporation?

Your Answer:

Answer

Question 2 (2 points)

Emmons Corporation has a 0.1 probability of a return of 0.68, a 0.2 probability of a rate of return of 0.07, and the remaining probability of a -0.3 rate of return. What is the variance in the expected rate of return of Emmons Corporation?

Your Answer:

Answer

Question 3 (1 point)

Consider a person with the following value function under prospect theory:

$$v(w) = w^{0.4} \quad \text{if } w \geq 0$$

$$= -2(-w)^{0.4} \quad \text{if } w < 0$$

Assume that this individual weight values by probabilities, instead of using the prospect theory weighting function. What is the value of the following prospect?

P1 (0.4, 1000, -800)

Your Answer:

Answer

Question 4 (1 point)

The rate of return on the U.S. government treasury bill is 0.04 and the expected rate of return on the Wilshire 5000 is 0.07. What is the required rate of return for a stock with a Beta 1.05?

Your Answer:

Answer