

- 1) A stock has returns for five years of 14 percent, -16 percent, 12 percent, 23 percent, and 4 percent, respectively. The stock has an average return of _____ percent and a standard deviation of _____ percent. 1) _____
 A) 7.04; 14.63 B) 7.40; 13.54 C) 7.40; 14.72 D) 8.60; 14.63
- 2) You own a portfolio of two stocks, A and B. Stock A is valued at \$84,650 and has an expected return of 10.6 percent. Stock B has an expected return of 6.4 percent. What is the expected return on the portfolio if the portfolio value is \$97,500? 2) _____
 A) 9.74 percent B) 10.09 percent
 C) 9.62 percent D) 10.05 percent
- 3) Assume the economy has a 12 percent chance of booming, a 4 percent chance of being recessionary, and being normal the remainder of the time. A stock is expected to return 18.7 percent in a boom, 14.4 percent in a normal economy, and lose 12 percent in a recession. What is the expected rate of return on this stock? 3) _____
 A) 8.78 percent B) 13.86 percent
 C) 11.48 percent D) 9.97 percent
- 4) Bruno's stock should return 14 percent in a boom, 11 percent in a normal economy, and 4 percent in a recession. The probabilities of a boom, normal economy, and recession are 8 percent, 90 percent, and 2 percent, respectively. What is the variance of the returns on this stock? 4) _____
 A) .000169 B) .001506 C) .001538 D) .011387 E) .011561
- 5) Bama Entertainment has common stock with a beta of 1.22. The market risk premium is 8.1 percent and the risk-free rate is 3.9 percent. What is the expected return on this stock? 5) _____
 A) 14.13 percent B) 12.40 percent
 C) 13.78 percent D) 12.67 percent
- 6) The stock of Wiley United has a beta of .98. The market risk premium is 7.6 percent and the risk-free rate is 3.9 percent. What is the expected return on this stock? 6) _____
 A) 7.53 percent B) 11.35 percent
 C) 12.01 percent D) 11.52 percent

Answer Key

Testname: PRACTICECHAPTER11

- 1) C
- 2) D
- 3) B
- 4) A
- 5) C
- 6) B