

Fall 2012: Final A for 4:00 class

Short Answer

1. Ask ⁺¹⁵

2. Lower ⁺¹⁵

3. $(\Delta R - \Delta E - (-500)) (1 - .35) = 0$ ⁺² ⁺² ⁺² ⁺⁵

$\Delta E = +500$ ⁺⁴

4. $E(R) = .25(-45) + .6(10) + .15(50)$ ⁺⁵ ⁺⁵ ⁺⁵ ⁺⁵

5. None ⁺¹⁵

6. $\beta_0 = \left(\frac{4.17}{4.17 + 1.1} \right) 1.33 + \left(\frac{1.1}{4.17 + 1.1} \right) 0.25$ ⁺² ⁺⁵ ⁺² ⁺² ⁺⁴

^{+8/+7} 7. Stock prices [✓] will rise, bond prices [✓] will fall

8. $500X(-5.75 + (35 - 30)) = -375$ ⁺¹ ⁺⁵ ⁺⁹

9. A ⁺¹⁵

10. $\beta_p = \left(\frac{\Delta S}{\Delta S + B} \right) \beta_s$; $\Delta = -(1 - \lambda(d_1))$; $B = PV(K) (1 - \lambda(d_2))$

⁺⁴ $\beta_p = \left(\frac{- (1 - .81859) 28}{- (1 - .81859) 28 + 24.93 (1 - .79389)} \right) 1.9$ ⁺² ⁺¹ ⁺² ⁺¹