Scale
54 = 75
52 = 73
50 = 71
47 = 66
46 = 64
42 = 59
40 = 56
38 = 53
31 = 44
30 = 42
26 = 37

Quiz A for 2:30 (4:00) Class: 10/01/12 Name Key

Note: Answer all of the following on a single graph. Be sure to clearly label which part of the graph answers which question.

Assume that the risk-free interest rate is 3% and that the expected return and standard deviation of returns on Proctor & Gamble and Starbucks are as follows: .

Asset	Expected Return	Standard Deviation
Proctor & Gamble	9%	20%
Starbucks	29%	35%

The correlation between the returns on Proctor & Gamble and Starbucks is 0.25

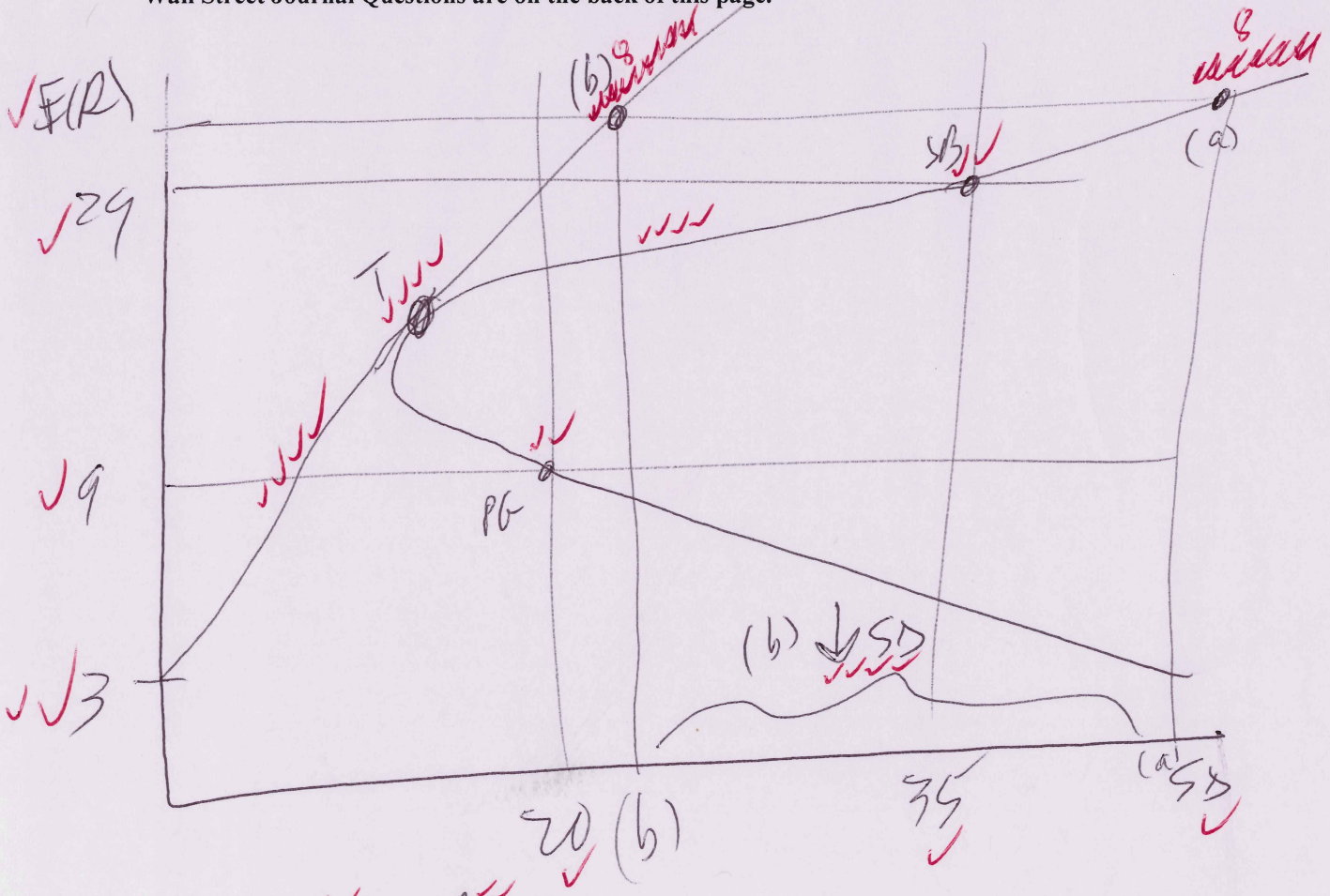
a. Sketch a graph of all possible portfolios you could build if you limit yourself to Proctor & Gamble and Starbucks. Identify your portfolio if you have short-sold $100,000 of Proctor & Gamble and invested $300,000 in Starbucks.

b. Assume that you have also decided to add risk-free Treasuries to your portfolio and that you wish to maintain the expected return you had in part a. Show how much better off you are due to the change in your portfolio.

c. Based on your graphs, list the transactions you would have to make as you adjust from the portfolio in part a. to the portfolio in part b.

possible = 54

Wall Street Journal Questions are on the back of this page.



c. Sell SB & buy PG
Short T bills & buy Treasury portfolio (T) of PG & SB