Quiz B for 2:30 Class: 10/02/13 Name ______________________________

Short Answer 1 (15 points): Sketch a reasonable set of portfolios you could build if you buy (no short-selling) shares of Chevron (CVX) and Google (GOOG). Assume the expected return on CVX is 11% and on GOOG is 20%, the standard deviation of returns on CVX is 14% and on GOOG is 21%, and the correlation between CVX and GOOG is + 0.15.

Short Answer 2 (15 points): On the same graph you used to answer SA1, show how your graph would change if the correlation between CVX and GOOG rises to + 0.7. Be sure to clearly label which part of your graph answers SA1 and which part of your graph answers SA2.

Problem (75 points): Based on the past five years of returns, set up the calculations needed to determine the standard deviation of returns on Toyota (TM) and Proctor & Gamble (PG), the covariance between Toyota and Proctor & Gamble, and the standard deviation of returns on your portfolio if you short-sell $400,000 of Proctor & Gamble and buy $900,000 of Toyota.

	Return on:	
Year	TM	PG
2013	63%	12%
2012	15%	13%
2011	– 5%	9%
2010	– 9%	7%
2009	– 8%	– 14%

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