Quiz A for 4:00 Class: 2/11/13 Name: Key

Assume you believe that the past five years have been representative for both Boeing (BA) and Microsoft (MSFT). Set up the calculations (equations and all relevant numbers) you would need to compare the (a) return and (b) volatility you can expect from investing in these two stocks.

	Return on:	
Year	BA	MSFT
2012	2%	-4%
2011	9%	-9%
2010	18%	0%
2009	49%	69%
2008	-48%	-47%

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

a. $+3$ / $\bar{R}_{BA} = \overset{+2}{\frac{1}{5}}\left(\overset{+3}{2}+\overset{+3}{9}+\overset{+3}{18}+\overset{+3}{49}\overset{+3}{-48}\right) = A$ (20)

$+3$ / $\bar{r}_{MSFT} = \overset{+2}{\frac{1}{5}}\left(\overset{+3}{-4}\overset{+3}{-9}\overset{+3}{+0}\overset{+3}{+69}\overset{+3}{-47}\right) = B$ (20)

b. $+3$ / $SD(r_{BA}) = \sqrt{\overset{+2}{\frac{1}{4}}\left((2-A)^2+(9-A)^2+(18-A)^2+(49-A)^2+(-48-A)^2\right)}$ (5)

$+3$ / $SD(r_{MSFT}) = \sqrt{\overset{+2}{\frac{1}{4}}\left((-4-B)^2+(-9-B)^2+(0-B)^2+(69-B)^2+(-47-B)^2\right)}$ (5)