

# Final B, Summer 2013

## Short Answer

1. initial cash flow too high, interest rate too high,  
growth rate too high, number of payments  
too high  
+8/+4/+2/+1
2. revenues too high, expenses too low, depreciation  
too low, tax rate too low  
+8/+4/+2/+1
3. covariance between returns on stock and  
market too low, standard deviation of  
returns on market too high  
→ or correlation between returns on stock  
& market too low & standard deviation  
of returns on asset too low  
+8/+7
4. strike price too high, stock price too low  
+8/+7
5. strike price too high, stock price too low,  
time to expiration too high, standard deviation  
of returns too high  
+8/+4/+2/+1