Scale:
✓ = points

82=75
79=73
78=72
74=68
72=66
70=65
54=55
52=53
44=49
42=47
40=45
38=43

Quiz A: 7/25/16 Name Key

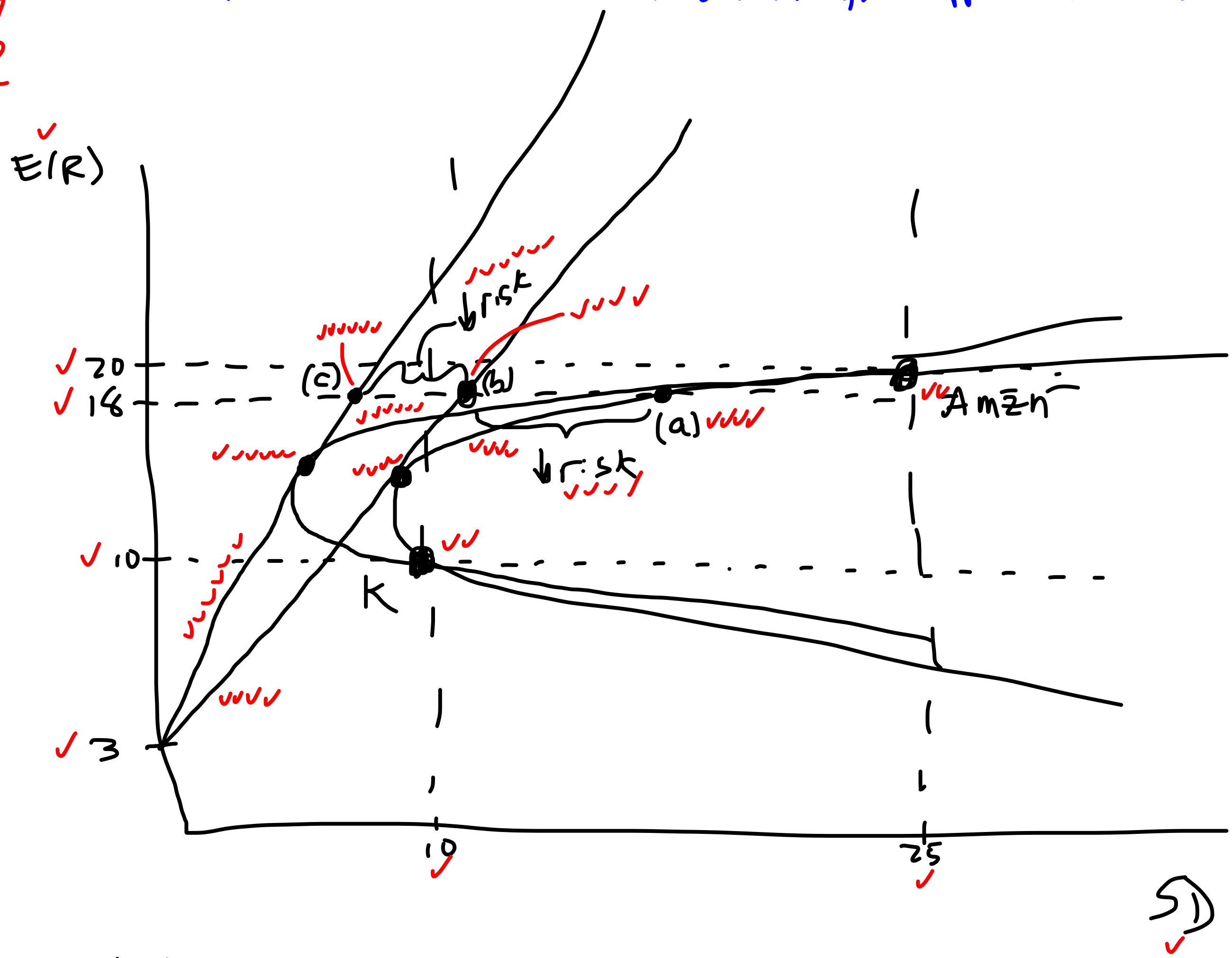
Assume Kellogg has a standard deviation of returns of 10% and an expected return of 10%. Assume also that Amazon has a standard deviation of returns of 25% and an expected return of 20%. And assume that the correlation between the returns on Kellogg and Amazon equals +0.3.
Note: Answer all of the following questions with a single graph. Just be sure to identify which part of the graph answers which question.

a. If you can take long or short positions in Kellogg and Amazon, identify a portfolio that allows you to earn an expected return of 18%. Identify the lowest risk portfolio you can build that allows you to earn your desired expected return.

b. Assume you can also take long or short positions in Treasuries that earn a 3% return. How does the risk of your best portfolio (that allows you to earn 18%) compare to part a? Are you better off or worse off?

c. Assume the correlation between Kellogg and Amazon falls. How does the risk of your best portfolio (that allows you to earn 18%) compare to part b? Are you better off or worse off?

d. ~~Have you invested more in~~ Treasuries ~~or~~ and the portfolio of Kellogg and Amazon in parts b and c? Assume you have $100,000 of wealth. What are your approximate holdings of



b. better off

c. better off

d. Short sold 20,000 of Treasuries, purchased 120,000 of portfolio of Kellogg + Amazon