IIT-Patna
HS301- Financial Economics (Mid-Semester Exam)
4th October, 2020   Total Marks=25   Duration-48 Hours

Instruction: Send your scanned answer script in single file to rajendra@iitp.ac.in by 5PM on 6th October

(Answer any ALL Questions)

1) If utility function for an investor is $U=\ln(X)$ where X is income and U is utility level then find out the certainty equivalence for the investor for a gamble where he will gain either 5 rupee or 7 rupee with equal probabilities. Also comment about investor's risk aversion.   **(7 marks)**

2) Derive and plot graphically the risk-return frontier for an investor who buys two assets with same return but different risks (standard deviations). **(8 marks)**

3) Derive the CPAM equation and discuss about idiosyncratic and market risk. **(10 marks)**