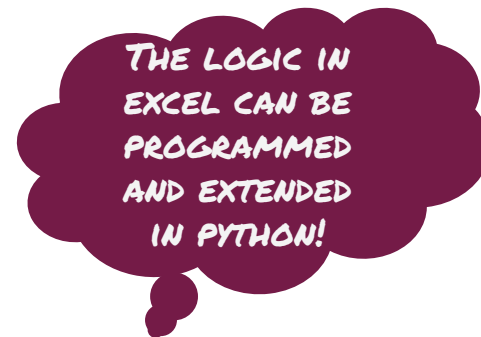# CAPM: Let us test it!

You will be endowed with certain amount of cash and a certain amount of securities (2 risky and 1 risk-free security). You will be able to trade these for 20 minutes. Short sales is NOT allowed.

If state is	X	Y	Z
Stock A	10	0	5
Stock B	0	5	10
Note	5	5	5

THE LOGIC IN EXCEL CAN BE PROGRAMMED AND EXTENDED IN PYTHON!

HINT! USE THE EXCEL SHEET!

After markets close, the securities pay a liquidating dividend, depending on the drawing of one of the possible three states, X, Y, or Z. These states are equally likely to occur. Liquidating dividends depend on the states as shown in the table.

Your performance for this trading session will be based on the final composition of your portfolio. We will evaluate how high the expected payoff is, while penalising risk (payoff variance), as follows:

*Performance = Expected Payoff - b * Payoff Variance*, where b (penalty for risk) = 0.01