**FINANCIAL MANAGEMENT**

**ASSIGNMENT – 12**

**Risk & Return**

1. Explain the Capital Asset Pricing Model, and its usage in Financial Management, with an example.

2. Assume a two stock portfolio, with the following particulars.

Stock 1 Returns = 12%

Stock 2 Returns = 15%

Stock 1 Standard Deviation = 21%

Stock 2 Standard Deviation = 35%

Correlation between the stocks = minus 0.3 (- 0.3)

Among the following options, at what weightage would the portfolio standard deviation be the lowest

1. 100% in stock 1 and 0% in stock 2
2. 25% in stock 1 and 75% in stock 2
3. 75% in stock 1 and 25% in stock 2
4. 0% in stock 1 and 100% in stock 2

3. Suppose you have a portfolio of Rs 100. You can invest in an optimal market portfolio that yields 15%, with volatility (standard deviation) of 17%. If you choose to borrow Rs 80 at risk free rate of 7%, and invest the proceeds along with your portfolio of Rs 100 in the optimal market portfolio, what would be the expected return and the standard deviation of the portfolio?