In-Class Exercise

Consider the following information:

State of Economy	Probability of State of Economy	Rate of Return if State Occurs		
		Stock A	Stock B	Stock C
Boom	0.75	0.06	0.15	0.25
Bust	0.25	0.11	-0.04	-0.08

What is the expected return and the variance of a portfolio invested 20 percent in each A and B and 60 percent in C?

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