

Assignment Instructions

Trading Setting (Identical to “Instructions” for Diversification Manual Experiment)

You will be endowed with a certain amount of cash and a certain amount of securities (upto 3 risky and 1 risk-free security). You will be able to trade these for 20 minutes. Short sales are allowed.

After markets close, the securities pay a liquidating dividend, depending on the drawing of one of the possible four states, W, X, Y, or Z. These states are equally likely to occur. Liquidating dividends depend on the states (an example of possible values is shown below, prices in dollars). The value of liquidating dividends for a security in a particular state will be made available in the market’s description.

If state is	W	X	Y	Z
Stock A	10	0	7.5	2.5
Stock B	0	2.5	7.5	10
Stock C	0	7.5	2.5	10
Note	5	5	5	5

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).

Please refer to the spreadsheet that was used for the Diversification trading session.