Question 1

The table below gives the traded price and paid dividends of company over 2020. What was the annual return of the company?

	Traded price	Paid dividend
31/12/2019	40	0
31/06/2020	42	0.5
31/12/2020	39	0.25

1) -2.5%

2) -0.71%

3) -1.88%

Correction

$$R_{2020} = \left(\frac{42+0.5}{40}\right)\left(\frac{39+0.25}{42}\right) - 1 = -0.71\%$$

Question 2

Which of the following functions are valid utility functions for risk-averse investors?

1) f(x)=log(x)

2) f(x)=x^2

3) f(x)=1-exp(-x)

4) x^(1-gamma)/(1-gamma), gamma>1

Correction: f'>0 for x>0 true for all. F''<0 for x>0 not true for 2).