

# **FIN 513: Homework #7**

Due on Tuesday, April 10, 2018

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## Problem 1

- (a) **Disagree.** Under CAPM, market price of risk for an arbitrary asset is defined as  $\lambda_X = \rho_{X,M}\lambda_M$ , where  $X$  is an arbitrary asset, and  $M$  denotes market. Let  $X$  denotes temperature, and if temperature increases are associated with lower stock prices, it means that correlation between temperature and stock price,  $\rho_{X,M}$ , is negative. Since market price of risk associated with stock price is positive, which associated with global warming will be negative, not positive.
- (b) **Agree.**

## Problem 2

- (a)
- (b)
- (c)

## Problem 3

## Problem 4

## Problem 5

- (a)
- (b)
- (c)