

BS2551 Money Banking and Finance

Seminar 4

Given the following information derive the expected return on company j using the Capital Asset Pricing Model (CAPM).

Return on Treasury Bills = 10%,

Expected Return on the Market Portfolio = 16%.

The Beta for stock j is equal to 1.50.

b) If the Expected Return on the Market Portfolio increases from 16 to 18%, show how this changes your results to (a).

c) Explain the results obtained from (a) and (b) with respect to investment strategies.