



FIN300 – Managerial Finance

Summer 2020

Assignment 3 - 15%

Section: ____

By

Student Name	ID

Problem 1 (20 points)

Junior & Co. Company has a beta of 1.1. The Treasury bill rate is 3%. The expected market return is 11%.

- Explain why the Treasury bill rate could be considered a risk-free rate.
- Calculate the expected return of Junior & Co.
- Calculate the market risk premium.

Problem 2 (20 points)

You buy a share today for 300 KD. The shares pays no dividend. One year from today, you were able to sell your share for 350 KD. Find the money return and the rate of the return of this share.

Problem 3 (30 points)

The following Table provides a prospective analysis of Sarp Industries Company.

Scenario	Probability	Return
Bad	0.2	-2%
Most likely	0.7	3%
Good	0.1	5%

- Calculate the expected rate of return of Sarp Industries Company.
- Calculate the standalone risk of Sarp Industries Company.

Problem 4 (30 points)

The following Table displays historical data for shares alpha and gamma returns.

Year	Alpha	Gamma
2016	0.08	0.10
2017	0.10	0.05
2018	0.07	0.12
2019	0.06	0.08

- Calculate the standalone risk for each share. Show steps and comment the results.
- You invested 1200 KD in share Alpha and 800 KD in share Gamma. Based on this information, create a portfolio, calculate the annual returns accordingly and find its standalone risk. Comment the result obtained.