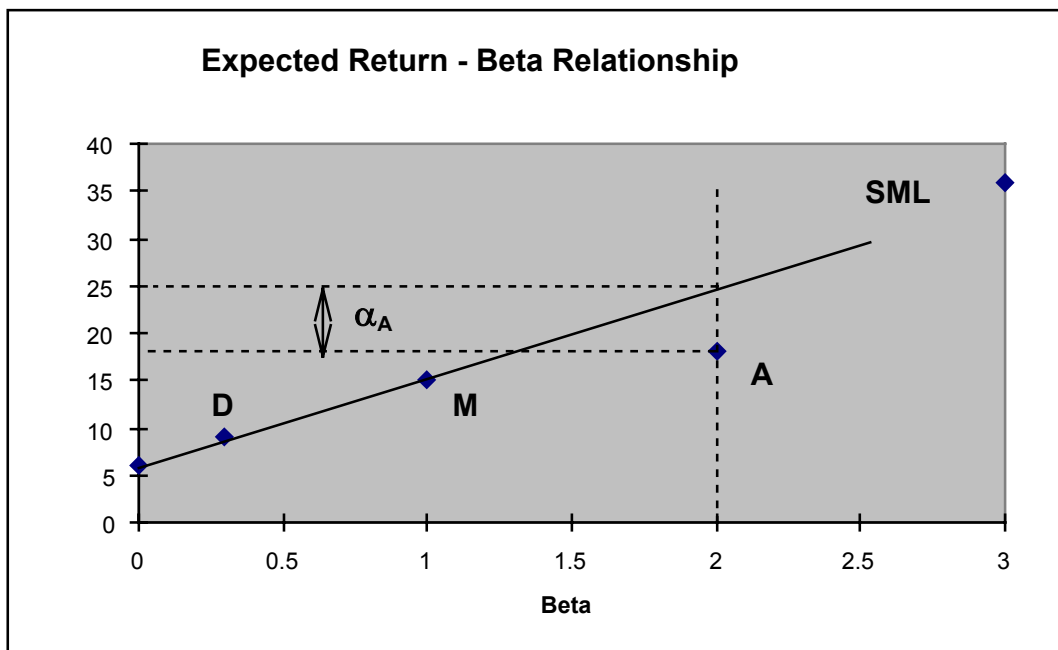


CHAPTER 9: THE CAPITAL ASSET PRICING MODEL

1. $\beta = 1.5$
2. The market price of the security will be = \$31.82.
3. NPV = 11.97
 $\beta = 2.773$
4. a. False.
b. False.
c. False.
5. a. $\beta_A = 2.00$
 $\beta_D = .30$
b. $E(r_A) = 18\%$
 $E(r_D) = 9\%$
c.



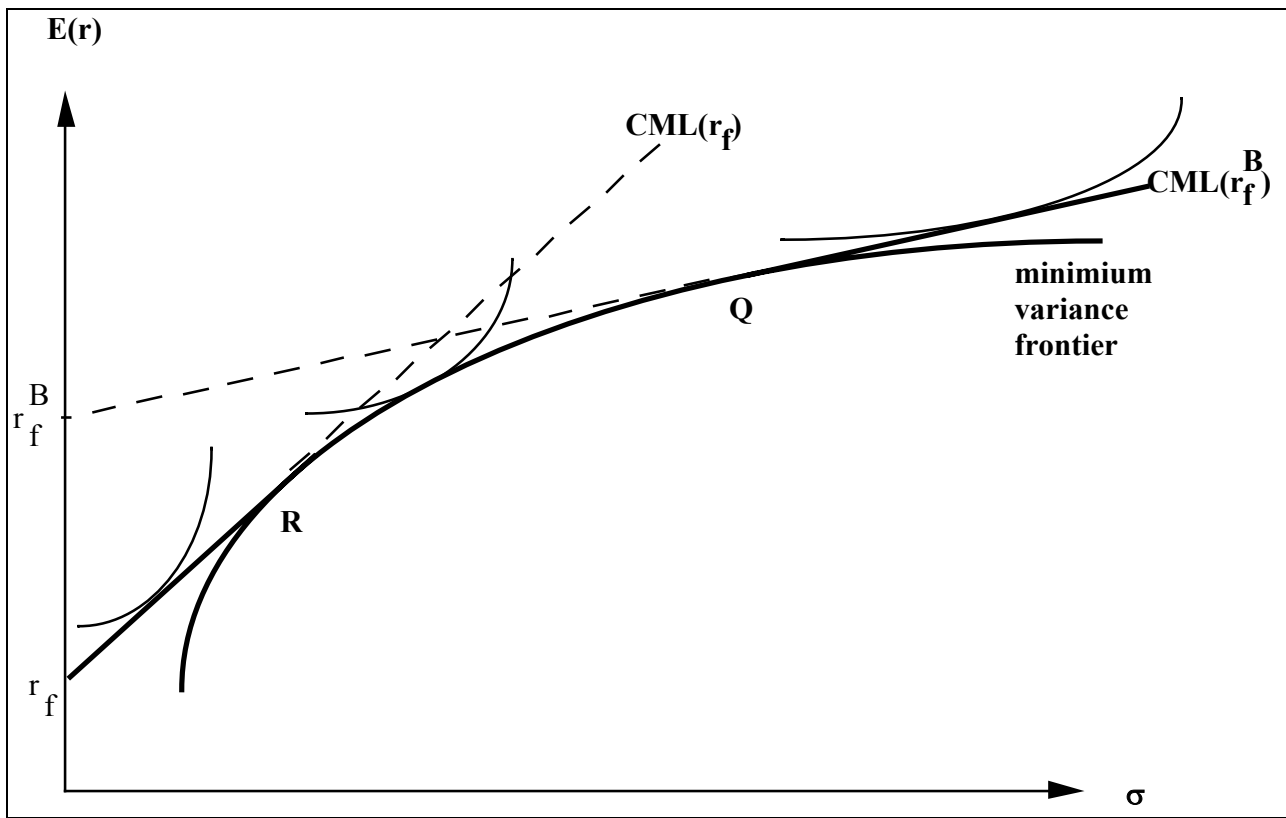
- d. $\alpha_A = -6\%$.
 $\alpha_D = +.3\%$.

The points for each stock plot on the graph as indicated above.

- e. The correct discount rate is 8.7%
6. Not possible.
7. Possible.
8. Not possible.
9. Not possible.
10. Not possible.
11. Not possible.
12. Possible.
13. $P_1 = \$53$
14. \$2,840.91
15. $\beta = -.2$
16. $r_1 = 19\%$; $r_2 = 16\%$; $\beta_1 = 1.5$; $\beta_2 = 1$
- a. we cannot tell which one is more accurate.
- b. the second investor appears to be a more accurate predictor
- c. the second investor appears to be a better predictor
17. a. the expected rate of return of the market portfolio is 12%.

- b. the expected rate of return would be 5%.
- c. the stock must be underpriced.

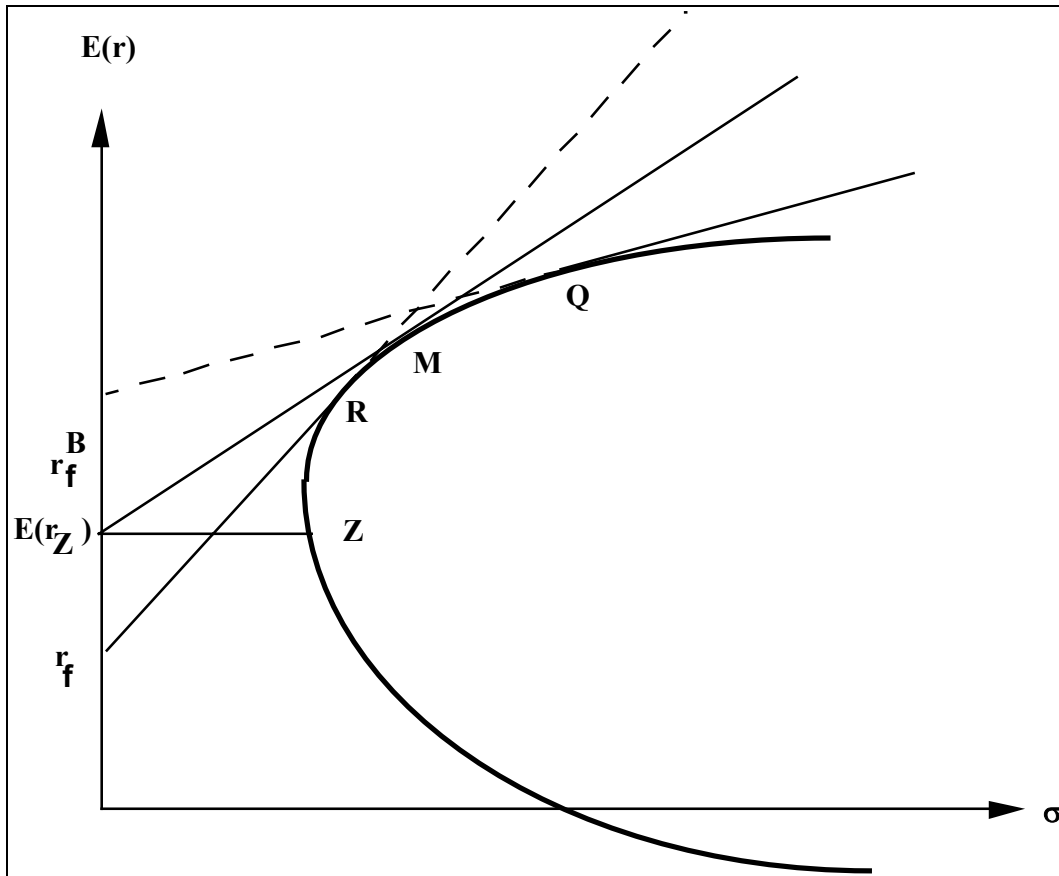
18. a.



b.

c.

d. Yes



19.

20. $E(r) = 13.4\%$

21. a.

22. d.

23. d.

24. c.

25. d.

26. d.

27. d.

28.