UNIVERSITÉ TOULOUSE 1 CAPITOLE

MASTER 1 in ECONOMICS
MASTER 1 ECONOMIE ET DROIT
MASTER 1 ECONOMIE ET STATISTIQUE

Market Finance / code : M1S14

Lundi 24 Juin 2013 - amphi MB1

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↪ durée conseillée pour traiter ce sujet : 1 heure
↪ **ATTENTION** : le nom de la matière et son code doivent être **IMPERATIVEMENT** recopiés sur la copie d'examen

Exercise 1

Consider a world ruled where the CAPM holds. In the table below several parameter values are given for stocks A, B, C, and D as well as for the market portfolio and the risk-free asset:

Asset	Expected return%	Std dev %	Correlation with Market Portfolio	Beta
Stock A	8.6		.5	
Stock B		25	.7	1.2
Stock C	7.9	28		.7
Stock D				0
Market Portfolio	10	20		
Risk-free asset	3			

a) Calculate the missing values -- if possible – and show your working. If not possible explain why.
b) Find the slope of the of the CML and of the SML
c) Explain why the expected return of asset B is higher than the one of asset C even though it has a lower risk.

Exercise 2

Discuss the assumptions and the contribution of the CAPM.

Exercise 3

Indicate if the following statements are true or false and explain your answer.

a) In a strong form efficient market you can obtain abnormal returns trading on private information.
b) Being short in a future implies being obliged to sell at maturity.
c) The option price is the price at which you exercise the option.
d) The Roll's critique says that the CAPM is wrong.
e) The prices of a weak form efficient market do not reflect private information.