**Fin 533 Homework**
**Due Tuesday October 6, 2009**

| Stock | Expected return | Beta | Firm-specific Standard deviation |
|---|---|---|---|
| A | 13% | 0.8 | 30% |
| B | 18 | 1.2 | 40 |

The market index has a standard deviation of 22% and the risk-free rate is 8%.

1. What are the standard deviations of Stocks A and B?
2. Suppose that we were to construct a portfolio with proportions:

| Security | Proportions |
|---|---|
| A | 30% |
| B | 45 |
| T-bills | 25 |

Compute the expected return, standard deviation, beta, and nonsystematic standard deviation of the portfolio.

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3. A share of stock is priced at $100. It will pay a dividend of $9 per share at the end of the year. Its beta is 1.25. What do investors expect the stock price will be at the end of the year? Assume a risk-free rate of 8% and a market return of 18%.