



Finance Sample Assignment | www.expertsmind.com

- 1) What is the holding period return to an investor who bought 100 shares of Charter Oil nine months ago for \$36 a share, received two \$50 dividend checks, and sold the stock today at \$38 a share?

Solution:

a	Number of shares	100
b	Price per share of Charter Oil	\$36.00
c	Investment (a x b)	\$3,600.00
d	Dividends (\$50 x 2)	\$100.00
e	Selling Price per share	\$38.00
f	Total amount received (e x a)	\$3,800.00
g	Holding period (Months)	9.00
h	Holding period return	8.33%
$(d + f - c)/c \times 100$		

- 2) What is the market price of a share of stock for a firm that pays dividends of \$1.20 per share, has a P/E of 14, and a dividend payout ratio of 0.4?

Solution:

a	Dividend per share	\$1.20
b	Dividend payout ratio	0.4
c	P/E	14
d	Earning per share (a/b)	\$3.00
e	Market Price (d x c)	\$42.00

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- 5) Your grandparents put \$1,000 into a saving account for you when you were born 30 years ago. This account has been earning interest at a compound rate of 7%. What is its value today?

Solution:

a	Amount Deposited every year by grandparents	\$1,000.00
b	Period (Years)	30
c	Interest rate(Compounded annually)	7%
d	Value after 30 years	\$94,460.79

Future value of \$1000 stream of payment for 30 years earned at 7%

- 6) An insurance company offers you and end of year annuity of \$48,000 per year for the next 20 years. They claim your return on the annuity is 9%. What is the most you would be willing to pay today for this annuity?

a	Amount offered every year by insurance company	\$48,000.00
b	Period (Years)	20
c	Interest rate claimed	9%
d	Present Value of the annuity of 20 years	\$438,170.19

Note: Assumed amount received at the end of the year.

- 7) 1st bank offers you a car loan at an annual interest rate of 10% compounded monthly. What effective annual interest rate is the bank charging you?

a	Rate of Interest	10%
b	Frequency of compounding (monthly)	12
c	Effective annual interest rate	10.47%

$$(1 + 10\%/12)^{12} - 1$$

The rate is divided by 12 and power is 12 as the rate is annual and interest is compounded monthly.

- 8) Compute the risk premium for the stock of Omega Tools if the risk free rate is 6%, the expected market return is 12%, and Omega's stock has a beta of .8.

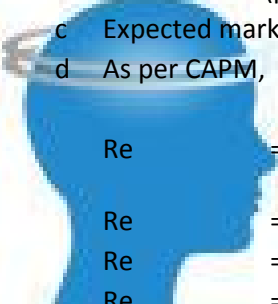
Omega Tools

a	Risk Free rate (Rf)	6%
b	Expected market return (Rm)	12%
c	Risk Premium	6%
	(b - a) or (Rm - Rf)	

- 9) Elephant Company common stock has a beta of 1.2. The risk-free rate is 6% and the expected market rate of return is 12%. Determine the required rate of return on the security.

Elephant Company

a	Risk Free rate (Rf)	6%
b	Beta of stock (β)	1.2
c	Expected market return (Re)	12%
d	As per CAPM,	


$$\begin{aligned} \text{Re} &= R_f + \beta \times (R_m - R_f) \\ \text{Re} &= 6\% + 1.2 \times (12\% - 6\%) \\ \text{Re} &= 6\% + 1.2 \times 6\% \\ \text{Re} &= 6\% + 7.2\% \\ \text{Re} &= 13.20\% \end{aligned}$$

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