**School of Management and Social Sciences (Dept. of Business Administration)**

**Course Title: Financial Management**

**Instructor: Ms. Marium Saleem**

**Total marks= 30**

**Attempt ALL the questions. Solve the questions in MS word and then upload the document on SIC as an assignment.**

Q1. Suppose that your estimates of the possible one-year return from investing in the common stock of Mark & Jacobs Corporation were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Probability of occurrence | 0.1 | 0.2 | 0.3 | 0.3 | 0.1 |
| Possible returns | -0.1 | 0.00 | 0.1 | 0.2 | 0.3 |

1. Calculate expected return and standard deviation. (15 marks)

Q2. (a) Using the above data for expected return and standard deviation, what is the probability that actual return will be zero or less? (5 marks)

1. Consider two investment opportunities, A and B, whose normal probability distributions of one-year returns have the following characteristics:

|  |  |  |
| --- | --- | --- |
|  | Investment A | Investment B |
| Expected Return | 0.1 | 0.20 |
| Standard deviation | 0.04 | 0.12 |

Calculate coefficients of variation for both A and B. Identify which of the two investments is more risky and why? (6 marks)

Q3. Interpret the following: (4 marks)

1. Certainty equivalent < expected value
2. Certainty equivalent= expected value