Exam #2

1. Capital Asset Pricing Model
   1.1 Efficient portfolios and the separation theorem;
   1.2 Diversifiable and non-diversifiable (systematic / market) risk;
   1.3 The definition of beta and CAPM equilibrium (SML equation);
   1.4 Expected return, variance and beta calculations for portfolios and for efficient portfolios;
   1.5 Pricing: overpriced and underpriced risky assets.

2. Market Efficiency – definitions, examples and implications

3. Derivatives – Call and Put Options
   1.1 Definitions of European / American call and put options;
   1.2 Payoff diagrams for long / short position in stock / bond / call option / put option / portfolios.
Instructions

- Bring your own formulas – One page (letter) with formulas printed or written on one side

- Bring your calculator
  - Make sure that it works
  - Make sure that you know how to use it

- Two - Three open questions, 60 minutes.
  - Write down the data and the details of your calculations
  - Simple questions are not a trap
  - Read each question carefully and make sure that you are providing the solution that the question is seeking
  - If you need the result of a part that you were not able to solve, pick a reasonable number, write down your assumption and use it to solve the next part.

Read and Practice

- Practice sets:
  - BKM 8th Ed. Ch. 7: 14-19 CFA: 4-6, 10-11;
  - BKM 8th Ed. Ch. 9: 1-2, 4-17, CFA: 3-10;
  - BKM 8th Ed. Ch. 11: 1-3, 6-5, 13, 19, 20, 23, CFA: 1-4;
  - BKM 8th Ed. Ch. 20: 5-6, 17-19, 21-23;
  - Options Practice Set:1-16.

- Practice Quizzes:
  - Quiz 2: 2 – 7;
  - Quiz 3: 1.

- Book Chapters:
  - Mean Variance Efficient Portfolios: Ch. 7;
  - The Capital Asset Pricing Model: Ch. 9;
  - Market Efficiency: Ch. 11;
  - Options Markets - Introduction: Ch. 20.