

Topical Review for Test 2A – Fall 2012 Corporation Finance

Valuation of cash flows as a means of determining the worth of both financial and real assets

Calculation and meaning of average rate of return, standard deviation of returns, and coefficient of variation when looking at stand-alone risks of holding stocks

Use of coefficient of variation to compare two different stocks

Use of beta to measure the required rate of return on a stock

How beta may be used to measure the risk of a stock relative to the market:

e.g. $\text{Beta} = 1$, $\text{Beta} > 1$, $0 < \text{Beta} < 1$

Calculation of the stand-alone measures of stock risk given various states of the economy, probability of their occurrence and resulting returns

Difference between a defensive stock with say a beta = .8 versus a growth stock that has a beta = 1.2

How historical information is used in portfolio analysis and the qualifications of this type of analysis

Calculation of a portfolio beta

Determination of a revised required rate of return on a stock given a change in the market risk premium

Calculation of a new portfolio beta when you replace one stock for another

Differences between choosing a stock held in isolation versus holding the stock within a portfolio of other stocks

Calculating the required rate of return on a fund that holds a set of sub-portfolio stocks

Calculation of a market risk premium

Determination of the overall rate of return on a stock holding where there are projected dividends, and an estimated stock price over a given holding period, along with a purchase price for the stock