

BPF2213 (Final Examination, June 2017) QUESTION 3(b)

Muzammil is considering two investment, BAC and FTR stock. Table 2 provides the possible returns and and associated probabilities for each stock.

State of Economy	Probability	BAC Stock Return	FTR Stock Return
Boom	0.45	15%	15%
Normal	0.30	6%	8%
Recession	0.25	-5%	-8%

Table 2: Possible Returns and the Corresponding Probabilities

- i) Compute the expected return and risk for each stocks. (14 Marks)
- ii) Justify which stock should be recommended if Muzammil is a risk taker. (3 Marks)

Disclaimer: The material prepared is for learning purpose only.