

Risk and Return Topics

This is a general guideline and should be viewed as such. Anything covered in class can be tested.

1. Historical record of return and risk
 - (a) First (average returns) and Second (return variability) lesson
 - (b) Risk premium
2. Be able to calculate dollar and percent return
3. Dividend yield and capital gains yield
4. Be able to calculate average, variance, and standard deviation of a series of returns
5. Arithmetic vs Geometric average or mean
 - (a) Know the difference “What is each one answering” and be able to calculate
6. Capital Market Efficiency
 - (a) Efficient market hypothesis
 - (b) Three forms: Strong, Semi-strong, and Weak
7. Expected returns
8. Variance and standard deviation of unequal probability states
9. Portfolios
 - (a) Weights
 - (b) Expected return
 - (c) Variance and standard deviation
 - (d) Beta
10. Systematic vs Unsystematic risk
11. Diversification
 - (a) The principle of diversification
 - (b) Diversifiable risk
 - (c) Total risk
 - (d) Systematic risk principle
 - (e) Measuring systematic risk
 - i. Beta
12. Security market line
 - (a) Reward to risk ratio and market efficiency
 - (b) Slope and intercept
13. CAPM