Solutions and grading scale Finance I

Evaluación	Quiz 1
Fecha	21-03-2012

Question	Area	Outstanding (3)	Sufficient (2)	Needs improvement (1)	Insufficient (0)	Score	Factor
1. Why is a dollar today worth more than a dollar tomorrow?	Understanding key assumptions of Financial Theory	The response clearly identifies the correct concept: **Because you could invest a dollar today in a risk free asset and receive more than a dollar tomorrow**	- Identifies the ability to invest a dollar as the main argument, although the response **does not mention the use of a risk free asset**	-Does not include the concept of risk free investment opportunity and **includes individual preferences such as risk aversion or time-consumption**	The response doesn't comply with minimum requirements of previous levels	15	5
2. Please explain the agency problem, providing an example in a corporate context?	Understanding of the agency problem	**Describes the agency problem clearly**, using adequate languaje and **proposes a precise and coherent corporate example** - The agency problem consists in the conflict raised between different parties due to divergent interests or goals	Response **contains both the explanation and example, but one of them doesn´t comply with the requirement** of an outstanding response	Response contains **either**: - only 1 of the elements with the outstanding requirements - both elements, without the outstanding requirements	The response doesn't comply with minimum requirements of previous levels	15	5
3. Suppose you own a portfolio with 2 assets. Asset 1 has an expected return of 16% and a standard deviation of 8%. Asset 2 has an expected return of 24% and a standard deviation of 22%.							
a. Graph the risk (standard deviation) and expected return of each asset. (1 Pt)		**Correctly graphs both assets**, identifying coordenates and axis. **Does not include additional incorrect items** such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	**Correctly graphs both assets**, identifying coordenates and axis. **Includes additional incorrect items** such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	**Incorrectly graphs one asset. Does not include additional incorrect items** such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	The response doesn't comply with minimum requirements of previous levels	15	5
b. Determine what is the weight each asset should have in the portfolio, if you require the portfolio to provide an expected return of 20%.-	Portfolio Risk and Return	Correctly **calculates the expected portfolio return as the weighted average** of the assets' expected return and solves for the proportion of each asset. Correct response is **50% each asset**	Correctly **calculates the expected portfolio return as the weighted average** of the assets' expected return and solves for the proportion of each asset. Provides an **incorrect response for the proportion of each asset**	**Doesn't calculate the expected portfolio return as the weighted average** of the assets' expected return and instead uses other approach or formula that lead to an incorrect proportion	The response doesn't comply with minimum requirements of previous levels	15	5
c. Calculate the standard deviation of the portfolio from 3.b, assuming a correlation coefficient of 0.5		Correctly **uses the portfolio variance formula provided, with the correct proportion from 3.b. Correctly translates variance into std. dev.** Correct response is **13.45%**	*-Correctly **uses the formula provided, with incorrect proportions from 3.b.** Provides an estimation of the std. dev. **between 8% and 22%, or** - Using the procedure from the outstanding response, fails to calculate the std. dev and **provides the variance instead**	**Incorrectly uses the formula provided.** Provides an estimation of the std. dev. **between 8% and 22%**	The response doesn't comply with minimum requirements of previous levels	15	5
d. Graph the risk and return of the portfolio from 3c.- Show in the graph the difference between the portfolio risk and the weighted average risk of the assets.		**Correctly graphs the portfolio and the weighted average risk**, identifying coordenates and axis. **Does not include additional incorrect items** such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	**Correctly graphs the portfolio and the weighted average risk**, identifying coordenates and axis. **Includes additional incorrect items** such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	**Incorrectly graphs either the portfolio or the weighted average risk.** Doesn't include additional incorrect items such as portfolio's frontiers (as no information is given to correctly graph a portfolio frontier)	The response doesn't comply with minimum requirements of previous levels	15	5

Total score	90
% required to approve	60%