China development industrial bank

Literature, Russian Literature

China Development Industrial Bank

Integrated Case Risk and Return Assume that you recently graduated with a major infinance. You just landed a job as a financial planner with China Development Industrial bank (CDIB), a large financial services corporation. Your first assignment is to invest $100, 000 for a client. Because the funds to be invested in a business at the end of 1 year, you have been instructed to plan a 1-year holding period. Further, your boss has restricted you to the investment alternatives in the following table, shown with their probabilities and associated outcomes.

RETURNS ON ALTERNATIVE INVESTMENTS ESTIMATED RATE OF RETURN

State Of the Economy Probability T-bills High Tech Collections U. S. Rubber Market Portfolio 2-stock-portfolio

- Recession 0. 1 5. 5% -27. 0% 27% 6% -17% 0%
- Below Average 0. 2 5. 5% -7% 13% -14% -3%
- Average 0. 4 5. 5% 15% 0 3% 10% 7. 50%
- Above Average 0. 2 5. 5% 30% -11% 41% 25%
- Boom 0. 1 5. 5% 45% -21% 26% 38% 12% r(hat)
- Expected return 1. 00% 9. 80% 10. 50%? (std deviation) 0. 0% 13. 20% 18. 80% 15. 20% 3. 40% CV 13. 20% 1. 90% 1. 4% 0. 50% beta -0. 87% 88. 00%

CDIB’s economic forecasting staff has developed probability estimates for the state of the economy; and its security analysts have developed a sophisticated computer program, which as used to estimate the rate of return on each alternative under each state of the economy. High Tech Inc.

is an electronics firm, collection Inc. collects past due debts, and U. S. Rubber manufactures tires and various other rubber and plastic products. Why is the T-bill’s return independent of the state of the economy? Do T-bills promise a completely risk-free return?