Session 4-5 Theory of Risk and Return Exercise:

21. Suppose you purchase one share of the stock of Volatile Engineering Corporation at the beginning of year 1 for $36. At the end of year 1, you receive a $2 dividend, and buy one more share for $30. At the end of year 2, you receive total dividends of $4 (i.e., $2 for each share), and sell the shares for $36.45 each. The dollar-weighted return on your investment is _____.

Question 21:

Year	Cash Out	Cash In	Net In (Out)
0	-36.00		-36.00
1	-30.00	2.00	-28.00
2		76.90	76.90
Dollar-weighted return or IRR =>			**12.35%**

22. Suppose you purchase one share of the stock of Cereal Correlation Company at the beginning of year 1 for $50. At the end of year 1, you receive a $1 dividend, and buy one more share for $72. At the end of year 2, you receive total dividends of $2 (i.e., $1 for each share), and sell the shares for $67.20 each. The time-weighted return on your investment is _____.

23. Suppose you purchase one share of the stock of Cereal Correlation Company at the beginning of year 1 for $50. At the end of year 1, you receive a $1 dividend, and buy one more share for $72. At the end of year 2, you receive total dividends of $2 (i.e., $1 for each share), and sell the shares for $67.20 each. The dollar-weighted return on your investment is _____.

Question 22-23:

Year	Cash Out	Cash In	Net In (Out)	Ri	
0	-50.00		-50.00		
1	-72.00	1.00	-71.00	46.00%	=(P1 + D - P0)/P0
2		136.40	136.40	-5.28%	=(P2 + D - P1)/P1
Dollar-weighted return or IRR =>			**8.78%**		

Time-weighted return =>

=(1+46%)*(1-5.28%)-1

17.60%