Example CAPM: Suppose that all the assumptions of Capital Asset Pricing Model (CAPM) hold and you are given the following formation.

Security's name	Standard deviation (σ)
Security J	0.2
Security K	0.5

Expected return on the market portfolio ($E(R_m)$) is equal to 0.12 and standard deviation of the market portfolio is equal to 0.4. The risk-free rate (R_f) is equal to 0.02.
Answer part (a), (b), (c) and (d) of this question **in the context of CAPM**.

(a) Suppose that portfolio B is consisted of the market portfolio and the risk-free asset and portfolio B has standard deviation of 0.1. What is the expected return on portfolio B? Is the given information sufficient and why? Explain.

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(b) "At equilibrium, the price of security J must be higher that the price of security K because security J has a lower risk than security K." Comment on this statement. Is the given information sufficient and why? Explain.

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