Uva Wellassa University
Faculty of Management
Degree of Bachelor of Business Management in Entrepreneurship and Management
FOURTH YEAR FIRST SEMESTER EXAMINATION –FEBRUARY/MARCH 2012
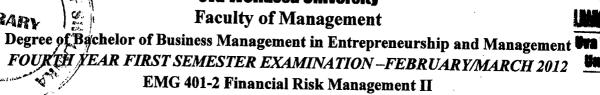### EMG 401-2 Financial Risk Management II

Part C- Essay Questions

Answer **all** questions.
Marks allocation: 50 marks

1. Explain the following models giving their validity in determining stock returns.

   i)   Fama and French three Factor Model (FF3F)

   ii)   Arbitrage Pricing (Model) Theory (APT).

   (25 marks)

2. Briefly explain the assumptions of capital market theory.   (10 marks)

3. Mr. Risk wants to decide which of two securities is best for him. By using probability estimates, he computed the following statistics.

Statistic	Security – X	Security – Y
Expected return	12%	8%
Standard deviation	20%	10%

   i)   Compute the coefficient of variation for each security

   ii)   Explain why the standard deviation and coefficient of variation give different rankings of risk. Which method is superior and why?

   (15 marks)