

Review Sheet for Fin 499 Exam - Risk and Return, Capital Budgeting and Options

Risk and Return

Risk measurements

Standard deviation, coefficient of variation and beta (see CAPM below)

Risk/return tradeoff

Efficient markets theory

Forms of market efficiency

Expected return vs. required return

CAPM

Basic theory, SML and calculations

Efficient portfolio

Capital Budgeting

Relevant cash flows

Capital budgeting techniques (IRR, NPV, PI, Payback)

Basic theory (advantages and disadvantages)

Calculations

Dealing with inflation

Dealing with correlated cash flows (basics)

Capital rationing

Independent vs. mutually exclusive projects

Real options in capital investments (Van Horne, pp. 177-187)

Options

Basics of option valuation

American vs. European options

Black-Scholes Option Pricing Model (basics from Fin 437 notes)

Real options (see Van Horne, pp.