International investment decisions

Exercise 1

Assume the following data:

Stock	Beta coefficient	Expected return
A	1.8	22.00%
B	1.6	20.44%

If the risk-free rate is 7% p.a., are these stocks properly valued?

Exercise 2

Suppose that the risk-free rate is 8% p.a. and expected return of a market portfolio is 16%. If the beta coefficient of the stocks of your company is 0.7, what is the expected return of your stocks based on the CAPM model?

Exercise 3

Assume that you are thinking over an investment into a six-year project in the value of 2 million CZK. It is expected that the investment will generate following cash-flows: years 1 - 3 = 600,000 CZK, years 4 - 6 = 400,000 CZK. WACC equals to 10%. Calculate the net present value of the future cash-flows, internal rate of return, payback period and modified payback period. We also assume that cash-flows in given years are balanced.