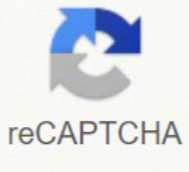




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Foreword by  
William F. Sharpe

# Mean-Variance Analysis in Portfolio Choice and Capital Markets

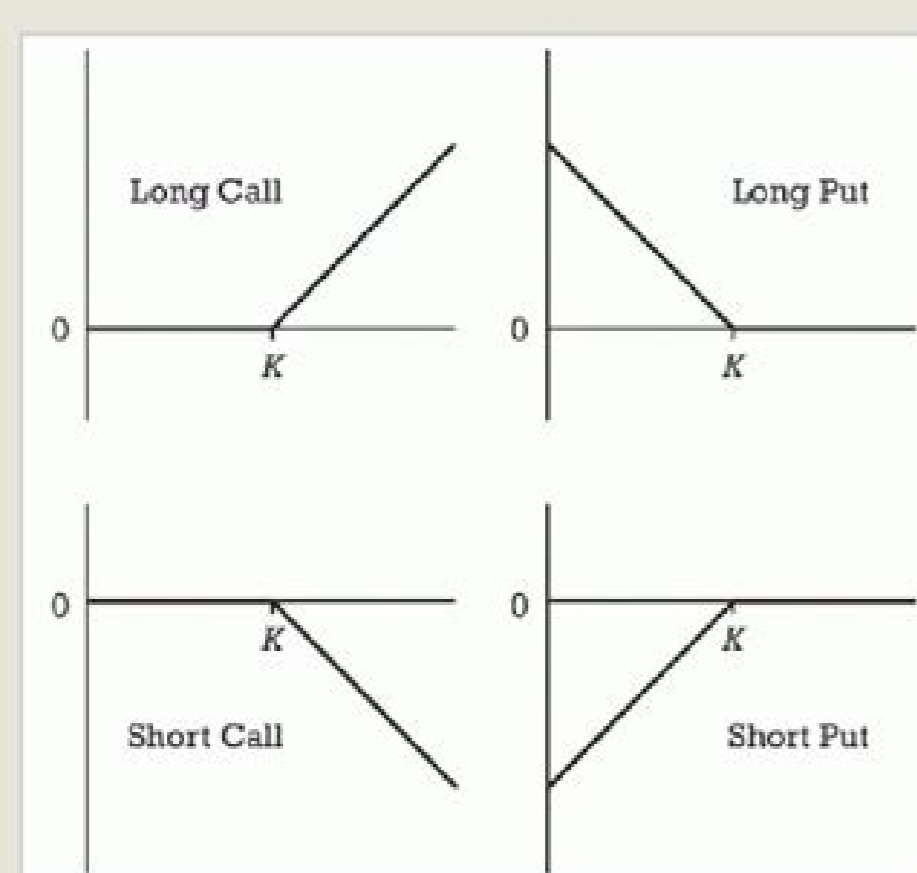
Harry M. Markowitz  
with a chapter and program by  
G. Peter Todd

puts are illustrated in Figure 16.1.

The following are some basic uses of options. Other standard option portfolios are presented in Exercises 16.1 and 16.2.

#### Protective Puts

An owner of an asset may buy a put option on it. The payoff of the asset combined with a put is



**Figure 16.1** Payoff diagrams. Each panel depicts the value of an option position at the option maturity. The underlying asset price is plotted on the horizontal axis, and the strike price  $K$  is indicated. The value of a long call is  $\max(0, S - K)$ , where  $K$  denotes the underlying asset price. The value of a long put is  $\max(0, K - S)$ . The value of a short call is minus the value of a long call, and the value of a short put is minus the value of a long put.

$$S_T + \max(0, K - S_T) = \max(S_T, K).$$

This reflects the fact that the owner can obtain at least  $K$  by exercising the put; thus, the put is insurance for the underlying asset. Similarly, someone who is short the underlying asset can buy a call option to insure the short position.

# CHAPTER 9 The Capital Asset Pricing Model



BODIE KANE MARCUS

Investments, 8<sup>th</sup> edition  
Bodie, Kane and Marcus

Slides by Susan Hine

McGraw-Hill/Irwin

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## Capital Asset Pricing Model (CAPM)

- It is the equilibrium model that underlies all modern financial theory
- Derived using principles of diversification with simplified assumptions
- Markowitz, Sharpe, Lintner and Mossin are researchers credited with its development

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Quotes: See Quotes in Econpapers (2) Track Quotes by RSS Feed There are no downloads for this item, see the Econpapers FAQ to suggest. Each chapter includes a "Notes and References" section, providing additional pathways to literature. Intended as a textbook for courses in asset pricing theory at the Ph.D. Or masters at the level of quantitative finance with extensive exercises and a handbook of solutions available to teachers, the book is also an essential reference for researchers and financial professionals as it includes detailed proofs and calculations as appendices section items. [DD] Back, 2010, Asset Pricing and Portfolio Choice Theory, Oxford University Press. UCT / 9780190241148.do access statistics for this book More In the OUP Catalogue of Oxford University PRESSBIBLIOGRACLE DATA to SA © Rie maintained by economy book marketing (). the 2nd edition of the Asset Pricing and Portfolio Choice Theory, Kerry E. Kerry E. We will cover the main pillars of asset pricing, including choice theory, portfolio theory, arrow-debate pricing, arbitrage pricing and dynamic models. Students require a solid background in mathematics, including calculation, probability theory and optimization. The final grade is calculated as follows: Assignments: 60 % Presentation of a research paper: 40 % have several jobs to choose from, but you can also propose one of your own. The assignments are available here: pdf. Introduction (slides) Main topics: The objectives of asset pricing Different approaches to assessing risk cash flows Readings: Theory of Choice, Utility Functions and Risk Aversion (slides) Main topics: Introduction to choice theory Definition and risk aversion measures Important functions: quadratic, exponential, exponential. Readings: DD (Chapters 3 and 4) Back (Chapters 1 and 20) Portfolio Theory (slides) Main topic: Risk Aversion and Portfolio Choice Definition and Solution of the Canonical Portfolio Problem Simplification of the portfolio problem through medium-variance preferences Computing the boundary with n risk assets Computing the boundary with n risk and one risk Readings: DD (chapters 5 and 6) Back (chapters 2 and 5) Additional material: Notes for differentiating vectors and matrices: pdf. Matlab script and data to calculate optimal portfolio: zip. Pricing model for capital assets (slides) Main topics: Capital market line. Readings: DD (chapter 7) Back (chapter 7) Arbitration Price Theory and Factor Models (slides) Main topics: Factor structure of share returns Market model Arbitration and pricing equations Fame and French 3-factor model Application to fund performance Readings: DD (Chapter 13) Back (Chapter 13) 6) odacrem odacrem od edadixelpmoc e edutelpmoCuerbeD-worrA aimonocE laicos e soriecnanif sodacrem: socip<sup>3</sup>At siapicnirP jsedils( uerbeD-ates ed .secnereferp .secnereferp ytilitu-detcepxe-non dna ,sfeileb suenogoreteh .noitamrofni etelpmocni dna cirtemmysa ,stibah lanretni dna lanretxe ,sksir nur-gnoI ,sretsasid erar gnidulcni ,hcraser gnicirp tessa ni scipot tnerruc lanoitidda fo rebmun a ot snoitcodortni edivorp koob eht fo trap tsal eht dna " selzup gnialpxe" no retpahc A .tsixe ton seod weiv ot gniyrt erew uoy egap eht tub .yyroS jkcaB[ .E yrreK noitamrofni tcatnoc lanoitiddA kcaB .E yrreK ,yroehT eciohC oiloftrOP dna gnicirP tessa fo noitide dn2 eht nI :tcarstbA sserP ytisrevinU drofxO morf eugolataC PUO ni ytisrevinU eciR ,ssenisuB fo loohcS senoj .kcaB .sesicrexe evismetxe sedulcni osla retpahc hcaE .sledom emit-suounitnoc dna .emit-etercsid ,doirep-elgnis ni yroehT gnicirP tessa dna eciohc oiloftrOP nialpxe koob eht fo strap owt tsrif eht .P-J ,enihtnaD)21 retpahC( DD)8 retpahC( kcaB:sgnidaeRnoitauge reluEstekram seitruces cimanyDnoitaulav sevitavired fo ledom laimonib eht:scipot niaM)sedils( sledoM cimanyD:sgnidaeRMPAC noitpmusnoC eht gnitseTMPAC noitpmusnoC eht ni gnicirP lartuen-ksirRMPAC noitpmusnoC lamrof eht:scipot niaM)sedils( ledom gnicirP tessa latipac noitpmusnoC ehT)4 retpahC( kcaB)11 retpahC( DD:sgnidaeRseitililaborp lartuen ksirRduob nahtannagaj-nesnaHrotcaf tuocsid citsahcotS:scipot niaM)sedils( gnicirP lartueN ksirR)3 retpahC( kcaB)01 dna 8 sretpahC(

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