

Standard Deviants School The Wild and Wacky World of Finance
Tape Five: *Diversification*
Length: 26 minutes, © 2002 Cerebellum Corporation
Audience: 7-12 grades

Diversification discusses the different types of risk, beta coefficient concept, how to use the Capital Asset Pricing Model and the Security Market Line to analyze investments.

Standard Deviants School The Wild and Wacky World of Finance: Diversification

- I. Risk
 - A. Company specific (unsystematic risk)
 - B. Market risk
 - 1. Capital Asset Pricing Model (CAPM)
- II. Beta
 - A. Definition of Beta coefficient
 - B. Key element of CAPM
 - C. Estimating Market Risk
 - 1. Undiversifiable risk
 - D. Values of Beta
- III. Putting CAPM to Work for You
 - A. Required rate of return
 - B. Formula for CAPM
 - C. Market risk premium
 - D. Risk premium
- IV. Security Market Line (SML)
 - A. How to use SML
 - B. How to graph SML
 - C. How changes in inflation affect SML