
COMPUTER ASSIGNEMENT 2 (cont.)

4. Consider now shortselling is not allowed.
- (a) Determine the lower and upper limiting points of the envelop hyperbola that are consistent with the no shortselling restriction.
 - (b) Determine the new efficient frontier and explain the similarities and differences when comparing to that of Question 1.
5. Suppose you would like to apply a constant correlation model (CCM) for in the described setup.
- (a) Determine the constant correlation parameter ρ and the mean-variance inputs under the CCM assumption.
 - (b) Find out the new tangent portfolios – $T1$ (CCM) and $T2$ (CCM) – under the model assumption.
 - (c) Represent the true envelop hyperbola of Question 1 and the CCM model implied envelop hyperbola and explain to which kind of investor would model risk be bigger?

Consider now the return correlations of assets A, B, C are $\rho_{AB} = 0.5$, $\rho_{BC} = 0$, and $\rho_{AC} = 0.25$.

Redo the Exercise. Comment the results.