

1a. You have \$5,000 to invest in Dewey, Cheetum & Howe (DCH) but want to maximize your return. The stock price is currently \$25. What is the maximum number of shares you could purchase buying on margin if the initial margin requirement is 50%?

1b. Construct an account balance statement for the above transaction:

Assets	Liabilities & Account Equity
Total:	Total:

1c. If the price of DCH falls to \$17, what is your current margin?
 $\text{margin} = (\text{value of security} - \text{margin loan}) / \text{value of security}$

1d. Construct an account balance statement for your account with the price of DCH at \$17:

Assets	Liabilities & Account Equity
Total:	Total:

1e. Assuming the maintenance margin is 25%, will you have a margin call if the price falls to \$17?

2a. Because DCH has been such a dog, you decide to try shorting the stock. It is currently selling for \$10 per share. If you short 400 shares, what will be the proceeds from the sale of the transaction and how much will you need to deposit? The initial margin requirement is 50%.

2b. Construct an account balance statement for the above transaction:

Assets	Liabilities & Account Equity
Total:	Total:

2c. If the price of DCH rises to \$12, what is your current margin?
 $\text{margin} = (\text{margin deposit} + \text{proceeds from short sale} - \text{value of security}) / \text{value of security}$

2d. Construct an account balance statement for your account with the price of DCH at \$12:

Assets	Liabilities & Account Equity
Total:	Total:

2e. Assuming the maintenance margin is 30%, will you have a margin call if the price rises to \$12?