The Shape Of Efficient Frontier Subject To A Different Assumptions About Short Selling & Riskless Lending & Borrowing

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Abstract

Most securities available for investment have uncertain outcomes and are thus risky. The basic problem facing each investor is to determine which particular risky securities to own. Because a portfolio is a collection of securities, this problem is equivalent to the investor selecting the optimal portfolio from a set of possible portfolios. Hence, this situation is often referred to as the portfolio selection problem. Many trails were to find solution to this problem begins with the complicated ideas of Markowitz, passing through the contributions of Tobin, Sharpe, & Lintner, and ending with the most modern simplification approaches. Markowitz’s ideas are led to derivation of efficient frontier subject to a set of the extreme assumptions, especially in the respect to short selling & riskless lending and borrowing. Thus, this paper is aimed to derive the efficient frontier subject to a different original extreme & most reality alternative assumptions. This paper is reached to many conclusions, most important among them is necessity to educate the investors’ population, in the Iraqi stock exchange, about the real shape of their efficient frontier which they faced in their environment.