

MGT201

Financial Management

Important mcqs

Lec 1 - Introduction to financial management

- 1. Which of the following is not a primary financial objective of a firm?**
 - A) Maximizing shareholder wealth
 - B) Maximizing profits
 - C) Maximizing sales revenue
 - D) Minimizing costs**Answer: C**
- 2. Which of the following statements is true about financial management?**
 - A) It is primarily concerned with making a profit.
 - B) It involves managing the use of money to maximize profits.
 - C) It is the same as accounting.
 - D) It only involves the use of financial data.**Answer: B**
- 3. What is the primary role of financial managers in a firm?**
 - A) To make decisions that maximize shareholder wealth
 - B) To make decisions that maximize profits
 - C) To make decisions that minimize costs
 - D) To make decisions that increase sales revenue**Answer: A**
- 4. Which of the following is not a capital budgeting technique?**
 - A) Payback period
 - B) Internal rate of return
 - C) Net present value
 - D) Financial statement analysis**Answer: D**
- 5. What is the goal of financial statement analysis?**
 - A) To determine the future profitability of a firm
 - B) To determine the market value of a firm's stock
 - C) To evaluate the liquidity and solvency of a firm
 - D) To determine the capital structure of a firm**Answer: C**
- 6. Which of the following financial ratios measures a firm's ability to meet its short-term obligations?**
 - A) Debt-to-equity ratio
 - B) Return on equity
 - C) Current ratio

D) Gross profit margin

Answer: C

7. **What is the difference between the present value and future value of money?**

A) The present value is the amount of money that will be received in the future, while the future value is the amount of money that is currently available.

B) The present value is the amount of money that is currently available, while the future value is the amount of money that will be received in the future.

C) The present value is the amount of money that will be received in the future, while the future value is the amount of money that will be needed in the future.

D) The present value is the amount of money that is currently available, while the future value is the amount of money that will be needed in the future.

Answer: B

8. **What is the purpose of a cash budget?**

A) To determine the amount of cash that will be needed to start a new business

B) To determine the amount of cash that will be needed to pay taxes

C) To determine the amount of cash that will be available for operating expenses

D) To determine the amount of cash that will be needed to finance capital expenditures

Answer: C

9. **What is the difference between operating cash flow and free cash flow?**

A) Operating cash flow is the cash generated by a firm's operations, while free cash flow is the cash available to pay dividends and finance growth.

B) Operating cash flow is the cash available to pay dividends and finance growth, while free cash flow is the cash generated by a firm's operations.

C) Operating cash flow is the cash generated by a firm's operations, while free cash flow is the cash available to pay off debt.

D) Operating cash flow is the cash available to pay off debt, while free cash flow is the cash generated by a firm's operations.

Answer: A

10. **Which of the following is not a factor that affects a firm's cost of capital?**

A) Interest rates

B) The firm's level of debt

C) The firm's level of profitability

D) The riskiness of the firm's investments

Answer: C

Lec 2 - Objectives of financial management, financial assets and financial markets

- 1. What are the primary objectives of financial management?**
 - a. Maximizing market share and revenue
 - b. Maximizing shareholder wealth and long-term financial viability
 - c. Maximizing employee satisfaction and productivity
 - d. Minimizing production costs and maximizing profits

Answer: b
- 2. Which of the following is NOT an example of a financial asset?**
 - a. Real estate
 - b. Stocks
 - c. Bonds
 - d. Inventory

Answer: d
- 3. Financial markets are platforms where buyers and sellers trade which of the following?**
 - a. Financial assets
 - b. Physical assets
 - c. Services
 - d. All of the above

Answer: a
- 4. The ownership of which financial asset represents ownership in a company?**
 - a. Stocks
 - b. Bonds
 - c. Real estate
 - d. All of the above

Answer: a
- 5. Which of the following is NOT a characteristic of financial assets?**
 - a. They are easily transferable.
 - b. They have a high degree of liquidity.
 - c. They have a low degree of risk.
 - d. They have the potential for high returns.

Answer: c
- 6. Which financial market specializes in the buying and selling of government-issued bonds?**
 - a. Stock market
 - b. Bond market
 - c. Real estate market
 - d. Commodities market

Answer: b
- 7. Which of the following is NOT a factor that affects financial asset prices in financial markets?**
 - a. Economic conditions
 - b. Political instability
 - c. Company size
 - d. Interest rates

Answer: c

8. **What is the main goal of a shareholder when investing in financial assets?**

- a. To receive a high level of interest payments
- b. To receive a guaranteed return on investment
- c. To make a profit by selling the asset at a higher price
- d. To have a long-term ownership stake in the company

Answer: c

9. **Which financial asset represents a debt owed by a company or government entity?**

- a. Stocks
- b. Bonds
- c. Real estate
- d. Commodities

Answer: b

10. **Which of the following is NOT a function of financial markets?**

- a. Providing a platform for companies to raise capital
- b. Facilitating the buying and selling of financial assets
- c. Setting interest rates for loans and mortgages
- d. Providing a means for investors to diversify their portfolios

Answer: c

Lec 3 - Analysis of financial statements

1. **Which of the following financial statements reports an organization's revenues and expenses over a specific period?**
- a) Balance sheet
 - b) Income statement
 - c) Cash flow statement
 - d) Retained earnings statement

Answer: b) Income statement

2. **Which financial statement shows an organization's assets, liabilities, and equity at a specific point in time?**
- a) Income statement
 - b) Balance sheet
 - c) Cash flow statement
 - d) Retained earnings statement

Answer: b) Balance sheet

3. **What is the formula for calculating the current ratio?**
- a) Current assets / Total assets
 - b) Current assets / Current liabilities
 - c) Total liabilities / Total assets
 - d) Net income / Total assets

Answer: b) Current assets / Current liabilities

4. **Which financial ratio measures an organization's ability to pay off its short-term debt obligations?**
- a) Debt-to-equity ratio
 - b) Return on equity
 - c) Quick ratio
 - d) Gross profit margin

Answer: c) Quick ratio

5. **Which financial statement shows the cash inflows and outflows of an organization over a specific period?**
- a) Balance sheet
 - b) Income statement
 - c) Cash flow statement
 - d) Retained earnings statement

Answer: c) Cash flow statement

6. **Which financial ratio measures an organization's profitability?**
- a) Debt-to-equity ratio
 - b) Return on equity
 - c) Quick ratio

d) Gross profit margin

Answer: b) Return on equity

7. **Which financial ratio measures an organization's ability to meet its long-term debt obligations?**

- a) Debt-to-equity ratio
- b) Current ratio
- c) Gross profit margin
- d) Interest coverage ratio

Answer: d) Interest coverage ratio

8. **Which financial ratio measures an organization's efficiency in using its assets to generate revenue?**

- a) Debt-to-equity ratio
- b) Asset turnover ratio
- c) Return on assets
- d) Gross profit margin

Answer: b) Asset turnover ratio

9. **Which financial statement shows changes in an organization's retained earnings over a specific period?**

- a) Balance sheet
- b) Income statement
- c) Cash flow statement
- d) Retained earnings statement

Answer: d) Retained earnings statement

10. **Which financial ratio measures an organization's leverage?**

- a) Debt-to-equity ratio
- b) Return on equity
- c) Quick ratio
- d) Gross profit margin

Answer: a) Debt-to-equity ratio

Lec 4 - Time value of money

1. Which of the following best describes the time value of money?

- a) The idea that money has a fixed value over time.
- b) The idea that money loses value over time.
- c) The idea that money received or paid out at different times has different values due to the potential earning power of money over time.
- d) The idea that the value of money remains the same, regardless of the time it is received or paid out.

Answer: c) The idea that money received or paid out at different times has different values due to the potential earning power of money over time.

2. Which of the following best describes the present value of money?

- a) The value of money in the future.
- b) The value of money in the past.
- c) The value of money today.
- d) The value of money at any point in time.

Answer: c) The value of money today.

3. What is the formula for calculating future value?

- a) $FV = PV \times (1 + r)^n$
- b) $PV = FV / (1 + r)^n$
- c) $FV = PV \times r \times n$
- d) $PV = FV \times (1 + r)^n$

Answer: a) $FV = PV \times (1 + r)^n$

4. Which of the following is an example of an annuity?

- a) A one-time payment.
- b) A series of equal payments made at regular intervals.
- c) A lump sum payment.
- d) A payment made at irregular intervals.

Answer: b) A series of equal payments made at regular intervals.

5. What is the time value of money concept used for?

- a) To calculate the value of money in the future.
- b) To calculate the value of money in the past.
- c) To calculate the value of money today.
- d) To compare the value of money received or paid out at different times.

Answer: d) To compare the value of money received or paid out at different times.

6. Which of the following best describes the discount rate? Which of the following best describes the discount rate?.

- b) The rate at which money decreases in value over time.
- c) The rate used to calculate the present value of future cash flows.
- d) The rate used to calculate the future value of present cash flows.

Answer: c) The rate used to calculate the present value of future cash flows.

7. Which of the following is an example of a time value of money calculation?

- a) Calculating the cost of goods sold.
- b) Calculating the net profit of a company.
- c) Calculating the present value of a future investment.
- d) Calculating the amount of inventory a company has.

Answer: c) Calculating the present value of a future investment.

8. What is the formula for calculating present value?

- a) $PV = FV \times (1 + r)^n$
- b) $FV = PV \times (1 + r)^n$
- c) $PV = FV / (1 + r)^n$
- d) $FV = PV / (1 + r)^n$

Answer: c) $PV = FV / (1 + r)^n$

9. Which of the following best describes compounding?

- a) The process of earning interest on interest.
- b) The process of earning a fixed interest rate.
- c) The process of earning interest at irregular intervals.
- d) The process of earning interest only once.

Answer: a) The process of earning interest on interest.

10. What is the formula for calculating the number of compounding periods?

- a) $n = (\ln(FV/PV)) / r$
- b) $n = r / (\ln(FV/PV))$
- c) $n = (\ln(PV/FV)) / r$
- d) $n = r$

Lec 5 - Financial forecasting & financial planning

1. **What is financial forecasting?**

- A) Analyzing past financial data
- B) Estimating future financial outcomes based on historical data
- C) Developing a financial plan
- D) Managing financial resources

Answer: B) Estimating future financial outcomes based on historical data

2. **Which of the following is not a common financial forecasting technique?**

- A) Trend analysis
- B) Regression analysis
- C) Ratio analysis
- D) Decision tree analysis

Answer: D) Decision tree analysis

3. **What is financial planning?**

- A) Estimating future financial outcomes
- B) Developing a budget
- C) Developing a plan for achieving financial goals
- D) Analyzing financial statements

Answer: C) Developing a plan for achieving financial goals

4. **What is a financial plan?**

- A) A detailed budget
- B) A long-term forecast of financial outcomes
- C) A plan for achieving financial goals
- D) A list of financial resources

Answer: C) A plan for achieving financial goals

5. **What is the first step in financial planning?**

- A) Setting financial goals
- B) Developing a budget
- C) Analyzing financial statements
- D) Estimating future financial outcomes

Answer: A) Setting financial goals

6. **Which of the following is not a common financial planning tool?**

- A) Budgeting
- B) Cash flow forecasting
- C) Ratio analysis
- D) Break-even analysis

Answer: C) Ratio analysis

7. **What is cash flow forecasting?**

- A) Estimating future financial outcomes
- B) Developing a plan for managing cash inflows and outflows
- C) Analyzing financial statements
- D) Developing a budget

Answer: B) Developing a plan for managing cash inflows and outflows

8. **What is break-even analysis?**

- A) Determining the point at which total revenues equal total costs
- B) Estimating future financial outcomes
- C) Developing a budget
- D) Analyzing financial statements

Answer: A) Determining the point at which total revenues equal total costs

9. **What is sensitivity analysis?**

- A) Analyzing how changes in key variables affect financial outcomes
- B) Developing a budget
- C) Estimating future financial outcomes
- D) Developing a plan for managing cash inflows and outflows

Answer: A) Analyzing how changes in key variables affect financial outcomes

10. **What is financial modeling?**

- A) Creating a detailed budget
- B) Developing a long-term financial forecast
- C) Analyzing financial statements
- D) Using mathematical formulas to simulate financial scenarios

Answer: D) Using mathematical formulas to simulate financial scenarios

Lec 6 - Present value and discounting

1. What is present value?

- A) The value of future cash flows at a specific point in time
- B) The value of current cash flows at a specific point in time
- C) The value of cash flows that have already occurred
- D) None of the above

Answer: A

2. What is discounting?

- A) The process of increasing future cash flows for the time value of money
- B) The process of adjusting future cash flows for the time value of money
- C) The process of reducing future cash flows for the time value of money
- D) None of the above

Answer: B

3. What is the present value formula?

- A) $PV = FV / (1 + r)$
- B) $PV = FV * (1 + r)$
- C) $PV = FV / r$
- D) $PV = FV * r$

Answer: A

4. What is the discount rate?

- A) The interest rate used to calculate present value
- B) The interest rate used to calculate future value
- C) The interest rate used to calculate inflation
- D) None of the above

Answer: A

5. What is the future value formula?

- A) $FV = PV / (1 + r)$
- B) $FV = PV * (1 + r)$
- C) $FV = PV / r$
- D) $FV = PV * r$

Answer: B

6. What is the time value of money?

- A) The concept that money is worth more in the future than it is today
- B) The concept that money is worth less in the future than it is today
- C) The concept that money is worth the same in the future as it is today
- D) None of the above

Answer: B

7. **What is the relationship between present value and future value?**

- A) Present value is always greater than future value
- B) Future value is always greater than present value
- C) Present value and future value are equal
- D) None of the above

Answer: B

8. **What is the purpose of calculating present value?**

- A) To calculate the value of future cash flows in today's dollars
- B) To calculate the value of current cash flows in future dollars
- C) To calculate the value of cash flows that have already occurred
- D) None of the above

Answer: A

9. **What is the effect of an increase in the discount rate on present value?**

- A) Present value increases
- B) Present value decreases
- C) Present value remains the same
- D) It depends on the specific situation

Answer: B

10. **What is the effect of an increase in the number of time periods on present value?**

- A) Present value increases
- B) Present value decreases
- C) Present value remains the same
- D) It depends on the specific situation

Answer: B

Lec 7 - Discounted cash flow analysis, annuities and perpetuities

1. What is Discounted Cash Flow (DCF) analysis?

- A) A valuation method to estimate the value of an investment
- B) A method to calculate future cash flows
- C) A method to calculate future profits
- D) A method to calculate future expenses

Solution: A) A valuation method to estimate the value of an investment

2. What is the formula for calculating the present value of an annuity?

- A) $PV = FV / (1+r)^n$
- B) $PV = (1+r)^n / r$
- C) $PV = PMT * (1-(1+r)^{-n}) / r$
- D) $PV = PMT * n$

Solution: C) $PV = PMT * (1-(1+r)^{-n}) / r$

3. What is an annuity?

- A) A series of equal payments made at regular intervals
- B) A single payment made at the end of a period
- C) A series of unequal payments made at regular intervals
- D) A single payment made at the beginning of a period

Solution: A) A series of equal payments made at regular intervals

4. What is the formula for calculating the present value of a perpetuity?

- A) $PV = FV / (1+r)^n$
- B) $PV = (1+r)^n / r$
- C) $PV = PMT / r$
- D) $PV = PMT * n$

Solution: C) $PV = PMT / r$

5. What is a perpetuity?

- A) An infinite series of equal payments
- B) A single payment made at the end of a period
- C) A series of unequal payments made at regular intervals
- D) A single payment made at the beginning of a period

Solution: A) An infinite series of equal payments

6. What is the discount rate in DCF analysis?

- A) The rate of return required to invest money today
- B) The interest rate on a loan
- C) The rate at which inflation is increasing
- D) The rate at which the economy is growing

Solution: A) The rate of return required to invest money today

7. What is the formula for calculating the future value of an annuity?

- A) $FV = PMT * n$
- B) $FV = PMT * (1+r)^n$
- C) $FV = PMT * (1-(1+r)^{-n}) / r$
- D) $FV = PV * (1+r)^n$

Solution: B) $FV = PMT * (1+r)^n$

8. **What is the formula for calculating the future value of a perpetuity?**

- A) $FV = PMT * n$
- B) $FV = PMT * (1+r)^n$
- C) $FV = PMT / r$
- D) $FV = PV * (1+r)^n$

Solution: C) $FV = PMT / r$

9. **What is the difference between an annuity and a perpetuity?**

- A) An annuity has a finite number of payments, while a perpetuity has an infinite number of payments
- B) An annuity has an infinite number of payments, while a perpetuity has a finite number of payments
- C) An annuity and a perpetuity are the same thing
- D) An annuity and a perpetuity have different payment amounts

Solution: A) An annuity has a finite number of payments, while a perpetuity has an infinite number of payments

10. **What is the main benefit of using DCF analysis?**

- A) It takes into account the time value of money
- B) It guarantees a high rate of return on an investment
- C) It is a quick and easy way to value an investment
- D)

Lec 8 - Capital budgeting and capital budgeting techniques

1. Which of the following is a capital budgeting technique?

- a) Balance sheet analysis
- b) Income statement analysis
- c) Payback period
- d) Cash flow analysis

Answer: c) Payback period

2. Which capital budgeting technique considers the time value of money?

- a) Payback period
- b) Internal rate of return
- c) Accounting rate of return
- d) Profitability index

Answer: b) Internal rate of return

3. Which of the following is a disadvantage of the payback period method?

- a) It is easy to calculate
- b) It considers the time value of money
- c) It ignores cash flows beyond the payback period
- d) It is widely used by businesses

Answer: c) It ignores cash flows beyond the payback period

4. The net present value (NPV) method uses which of the following to evaluate a project?

- a) Future cash inflows and outflows
- b) Accounting profits
- c) Depreciation expenses
- d) Market share

Answer: a) Future cash inflows and outflows

5. Which of the following is an advantage of the internal rate of return (IRR) method?

- a) It considers all cash flows over the project's life
- b) It is easy to calculate
- c) It does not consider the time value of money
- d) It is not affected by changes in interest rates

Answer: a) It considers all cash flows over the project's life

6. Which of the following is a disadvantage of the profitability index (PI) method?

- a) It is difficult to understand and calculate
- b) It is affected by changes in interest rates
- c) It ignores cash flows beyond the payback period
- d) It does not consider the time value of money

Answer: d) It does not consider the time value of money

7. **Which capital budgeting technique uses accounting profits to evaluate a project?**
- a) Payback period
 - b) Internal rate of return
 - c) Accounting rate of return
 - d) Net present value

Answer: c) Accounting rate of return

8. **Which of the following is a limitation of the net present value (NPV) method?**
- a) It ignores the time value of money
 - b) It does not consider all cash flows over the project's life
 - c) It is difficult to understand and calculate
 - d) It is not affected by changes in interest rates

Answer: c) It is difficult to understand and calculate

9. **Which of the following is a capital budgeting decision?**
- a) Deciding on the marketing strategy for a new product
 - b) Deciding on the salaries for employees
 - c) Deciding on the purchase of new equipment
 - d) Deciding on the price of a product

Answer: c) Deciding on the purchase of new equipment

10. **Which of the following is not a capital budgeting technique?**
- a) Payback period
 - b) Accounting rate of return
 - c) Market share analysis
 - d) Net present value

Answer: c) Market share analysis

Lec 9 - Net present value & internal rate of return

1. What is net present value (NPV)?

- a. The sum of expected cash inflows
- b. The difference between expected cash inflows and outflows
- c. The present value of expected cash inflows minus the present value of expected cash outflows
- d. The future value of expected cash inflows

Answer: c

2. What is internal rate of return (IRR)?

- a. The rate at which the present value of expected cash inflows equals the present value of expected cash outflows
- b. The rate at which the future value of expected cash inflows equals the future value of expected cash outflows
- c. The rate at which the expected cash inflows are greater than the expected cash outflows
- d. The rate at which the expected cash outflows are greater than the expected cash inflows

Answer: a

3. Which of the following is true about NPV?

- a. A project is acceptable if its NPV is negative
- b. NPV considers the time value of money
- c. NPV is not affected by the discount rate
- d. NPV only considers cash inflows

Answer: b

4. Which of the following is true about IRR?

- a. A project is acceptable if its IRR is less than the required rate of return
- b. IRR does not consider the time value of money
- c. IRR is the same as the cost of capital
- d. IRR is a measure of profitability

Answer: d

5. If the NPV of a project is zero, what does this mean?

- a. The project is not profitable
- b. The project is only profitable if the discount rate is increased
- c. The project is only profitable if the discount rate is decreased
- d. The project is just breaking even

Answer: d

6. Which of the following is a disadvantage of using IRR as a capital budgeting technique?

- a. It is difficult to calculate
- b. It does not consider the time value of money
- c. It can have multiple solutions
- d. It is not affected by the discount rate

Answer: c

7. Which of the following is a limitation of using NPV as a capital budgeting technique?
- a. It does not consider the time value of money
 - b. It can be difficult to interpret for projects with multiple cash flows
 - c. It does not consider the risk associated with the project
 - d. It is affected by the discount rate

Answer: b

8. When evaluating two investment projects using NPV, which project is more desirable?
- a. The project with a lower NPV
 - b. The project with a higher NPV
 - c. The project with a zero NPV
 - d. It depends on the discount rate

Answer: b

9. What is the required rate of return?
- a. The minimum rate of return an investor expects to earn
 - b. The maximum rate of return an investor expects to earn
 - c. The rate at which the expected cash inflows are equal to the expected cash outflows
 - d. The rate at which the future value of expected cash inflows equals the future value of expected cash outflows

Answer: a

10. Which capital budgeting technique is more sensitive to changes in the discount rate?
- a. NPV
 - b. IRR
 - c. Both NPV and IRR
 - d. Neither NPV nor IRR

Answer: b

Lec 10 - . Project cash flows, project timing, comparing projects and modified internal rate of return

1. What are project cash flows?

- The initial investment required for a project
- The inflows and outflows of cash associated with a particular project
- The profit earned from a project
- The tax benefits associated with a project

Answer: b. The inflows and outflows of cash associated with a particular project

2. Why is project timing important?

- It determines the amount of initial investment required
- It affects the value of cash flows due to the time value of money
- It determines the rate of return on the project
- It affects the tax benefits associated with the project

Answer: b. It affects the value of cash flows due to the time value of money

3. How do you compare projects?

- By evaluating their respective cash flows and rates of return
- By comparing the initial investment required for each project
- By considering the tax benefits associated with each project
- By comparing the size of each project

Answer: a. By evaluating their respective cash flows and rates of return

4. What is the Modified Internal Rate of Return (MIRR)?

- A variant of NPV
- A variant of IRR
- A measure of the initial investment required for a project
- A measure of the tax benefits associated with a project

Answer: b. A variant of IRR

5. What does MIRR account for that IRR does not?

- The time value of money
- The reinvestment of cash flows at a specific rate
- The size of the project
- The tax benefits associated with the project

Answer: b. The reinvestment of cash flows at a specific rate

6. What is the formula for calculating net present value (NPV)?

- $CF_0 + CF_1 / (1 + r) + CF_2 / (1 + r)^2 + \dots + CF_n / (1 + r)^n$
- $(CF_1 - CF_0) / CF_0$
- $CF_0 + CF_1 + CF_2 + \dots + CF_n$
- $(CF_0 - CF_1) / CF_1$

Answer: a. $CF_0 + CF_1 / (1 + r) + CF_2 / (1 + r)^2 + \dots + CF_n / (1 + r)^n$

7. **How does a higher discount rate affect the net present value (NPV)?**

- a. Increases NPV
- b. Decreases NPV
- c. Has no effect on NPV
- d. It depends on the project cash flows

Answer: b. Decreases NPV

8. **What is the formula for calculating internal rate of return (IRR)?**

- a. $CF_0 + CF_1 / (1 + r) + CF_2 / (1 + r)^2 + \dots + CF_n / (1 + r)^n = 0$
- b. $(CF_1 - CF_0) / CF_0$
- c. $CF_0 + CF_1 + CF_2 + \dots + CF_n$
- d. $(CF_0 - CF_1) / CF_1 = 0$

Answer: a. $CF_0 + CF_1 / (1 + r) + CF_2 / (1 + r)^2 + \dots + CF_n / (1 + r)^n = 0$

9. **What is the payback period?**

- a. The time it takes for a project to generate a positive net present value
- b. The time it takes for the initial investment to be recovered
- c. The total amount of cash flows generated by a project
- d. The rate of return on the project

Answer: b. The time it takes for the initial investment to be recovered

10. Which of the following is not a

Lec 11 - Some special areas of capital budgeting

1. Which of the following is a special area of capital budgeting?

- a. Payback period
- b. Strategic investment decisions
- c. Net present value
- d. Internal rate of return

Answer: b. Strategic investment decisions

2. Real options analysis is an approach used to:

- a. Determine project cash flows
- b. Evaluate the timing of cash flows
- c. Incorporate uncertainty into capital budgeting decisions
- d. Calculate the profitability index

Answer: c. Incorporate uncertainty into capital budgeting decisions

3. Green investment decisions refer to investments that:

- a. Have a positive impact on the environment
- b. Are financially unprofitable
- c. Do not require significant funding
- d. Are unrelated to environmental sustainability

Answer: a. Have a positive impact on the environment

4. Which of the following is not a special area of capital budgeting?

- a. Risk analysis
- b. Joint ventures
- c. Profitability index
- d. Divestitures

Answer: c. Profitability index

5. Mergers and acquisitions are an example of:

- a. Green investment decisions
- b. Strategic investment decisions
- c. Real options analysis
- d. Risk analysis

Answer: b. Strategic investment decisions

6. Which approach is used to evaluate the value of management flexibility in making investment decisions?

- a. Real options analysis
- b. MIRR
- c. Payback period
- d. Profitability index

Answer: a. Real options analysis

7. **Which of the following is a key factor in assessing the risk associated with a capital budgeting project?**
- a. Project timing
 - b. Net present value
 - c. Inflation rates
 - d. Uncertainty

Answer: d. Uncertainty

8. **Divestitures refer to:**
- a. Investments made in green technology
 - b. Selling off a portion of the company
 - c. Investment decisions made by joint ventures
 - d. Investments made to expand the company's product line

Answer: b. Selling off a portion of the company

9. **Joint ventures are a type of:**
- a. Strategic investment decision
 - b. Real options analysis
 - c. Green investment decision
 - d. Risk analysis

Answer: a. Strategic investment decision

10. **Risk analysis involves:**
- a. Determining the value of management flexibility
 - b. Evaluating the environmental impact of a project
 - c. Analyzing the likelihood and impact of various risks
 - d. Calculating the profitability of a project

Answer: c. Analyzing the likelihood and impact of various risks

Lec 12 - Capital budgeting and interpretation of IRR and NPV with limited capital

1. In capital budgeting decisions with limited capital, which technique is used to determine which projects to pursue?
- a) Internal rate of return (IRR)
 - b) Net present value (NPV)
 - c) Capital rationing
 - d) Sensitivity analysis

Answer: c) Capital rationing

2. Which of the following methods considers the time value of money in capital budgeting decisions?
- a) Payback period
 - b) Accounting rate of return (ARR)
 - c) Net present value (NPV)
 - d) Profitability index (PI)

Answer: c) Net present value (NPV)

3. Which of the following is an advantage of using the internal rate of return (IRR) method?
- a) It provides a dollar amount for the project's profitability.
 - b) It is easy to understand and calculate.
 - c) It considers the time value of money.
 - d) It does not require a discount rate.

Answer: c) It considers the time value of money.

4. Which of the following is a limitation of using the payback period method?
- a) It does not consider the time value of money.
 - b) It is difficult to calculate.
 - c) It is based on estimates and assumptions.
 - d) It does not provide a clear indication of profitability.

Answer: a) It does not consider the time value of money.

5. What is the primary goal of capital budgeting?
- a) To maximize profits
 - b) To minimize costs
 - c) To maximize shareholder wealth
 - d) To break even

Answer: c) To maximize shareholder wealth

6. Which of the following is a disadvantage of using the profitability index (PI) method?
- a) It does not consider the time value of money.
 - b) It can be difficult to interpret.
 - c) It does not provide a dollar amount for the project's profitability.
 - d) It requires a discount rate.

Answer: c) It does not provide a dollar amount for the project's profitability.

7. Which of the following is a limitation of using the net present value (NPV) method?
- a) It does not consider the time value of money.
 - b) It can be difficult to interpret.
 - c) It requires a discount rate.
 - d) It is based on estimates and assumptions.

Answer: d) It is based on estimates and assumptions.

8. **When capital is limited, which of the following is a factor to consider in selecting projects?**

- a) Projects with high internal rates of return (IRRs)
- b) Projects with low net present values (NPVs)
- c) The timing of the project's cash flows
- d) Projects with high payback periods

Answer: c) The timing of the project's cash flows

9. **Which of the following is an advantage of using the modified internal rate of return (MIRR) method?**

- a) It considers the time value of money.
- b) It is easy to calculate.
- c) It provides a clear indication of profitability.
- d) It does not require a discount rate.

Answer: c) It provides a clear indication of profitability.

10. **Which of the following methods calculates the rate of return that makes the net present value (NPV) of a project equal to zero?**

- a) Payback period
- b) Internal rate of return (IRR)
- c) Profitability index (PI)
- d) Sensitivity analysis

Answer: b) Internal rate of return (IRR)

Lec 13 - Bonds and classification of bonds

- Which of the following is a type of bond that pays no interest but is sold at a discount to its face value?**
 - Corporate bond
 - Government bond
 - Municipal bond
 - Zero-coupon bond

Answer: d) Zero-coupon bond
- What type of bond can be converted into shares of the issuer's common stock?**
 - Corporate bond
 - Government bond
 - Municipal bond
 - Convertible bond

Answer: d) Convertible bond
- Which type of bond is issued by state and local governments?**
 - Corporate bond
 - Government bond
 - Municipal bond
 - Convertible bond

Answer: c) Municipal bond
- Which type of bond has a variable interest rate that is tied to an external benchmark?**
 - Fixed-rate bond
 - Floating-rate bond
 - Zero-coupon bond
 - Convertible bond

Answer: b) Floating-rate bond
- What type of bond is backed by the issuer's ability to generate sufficient cash flow to make interest and principal payments?**
 - Secured bond
 - Unsecured bond
 - Junk bond
 - Callable bond

Answer: b) Unsecured bond
- What type of bond is issued by companies with lower credit ratings and carries a higher risk of default?**
 - Investment-grade bond
 - Junk bond
 - Municipal bond
 - Convertible bond

Answer: b) Junk bond
- Which type of bond can be redeemed by the issuer prior to its maturity date?**
 - Callable bond
 - Puttable bond
 - Zero-coupon bond
 - Convertible bond

Answer: a) Callable bond

8. **What type of bond pays a fixed interest rate over its lifetime?**

- a) Variable-rate bond
- b) Floating-rate bond
- c) Zero-coupon bond
- d) Fixed-rate bond

Answer: d) Fixed-rate bond

9. **Which type of bond is secured by specific assets of the issuer?**

- a) Unsecured bond
- b) Secured bond
- c) Junk bond
- d) Convertible bond

Answer: b) Secured bond

10. **What type of bond can be sold back to the issuer at a specified price before its maturity date?**

- a) Callable bond
- b) Puttable bond
- c) Zero-coupon bond
- d) Convertible bond

Answer: b) Puttable bond

Lec 14 - Bonds valuation

1. What is bond valuation?

- a) The process of determining the future cash flows of a bond
- b) The process of determining the present value of a bond's future cash flows
- c) The process of determining the coupon rate of a bond
- d) The process of determining the maturity date of a bond

Answer: b) The process of determining the present value of a bond's future cash flows

2. Which of the following factors is NOT considered in bond valuation?

- a) Coupon rate
- b) Maturity date
- c) Face value
- d) Issuer's credit rating

Answer: d) Issuer's credit rating

3. When interest rates rise, what happens to the value of a bond?

- a) It increases
- b) It decreases
- c) It remains the same
- d) It cannot be determined

Answer: b) It decreases

4. What is the relationship between bond prices and yields?

- a) They have a positive relationship
- b) They have a negative relationship
- c) They have no relationship
- d) They have an inverse relationship

Answer: d) They have an inverse relationship

5. What is a bond's yield to maturity (YTM)?

- a) The interest rate the issuer pays on the bond
- b) The interest rate investors demand for the bond
- c) The annualized return an investor would earn if the bond is held to maturity
- d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is held to maturity

6. What is the current yield of a bond?

- a) The annual coupon payment divided by the face value of the bond
- b) The annualized return an investor would earn if the bond is held to maturity
- c) The yield an investor earns by purchasing a bond at its current market price
- d) The yield an investor earns by purchasing a bond at its face value

Answer: a) The annual coupon payment divided by the face value of the bond

7. **What is a bond's yield to call (YTC)?**

- a) The interest rate the issuer pays on the bond
- b) The interest rate investors demand for the bond
- c) The annualized return an investor would earn if the bond is called before maturity
- d) The annual coupon payment divided by the face value of the bond

Answer: c) The annualized return an investor would earn if the bond is called before maturity

8. **What is a premium bond?**

- a) A bond that is trading above its face value
- b) A bond that is trading at its face value
- c) A bond that is trading below its face value
- d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: a) A bond that is trading above its face value

9. **What is a discount bond?**

- a) A bond that is trading above its face value
- b) A bond that is trading at its face value
- c) A bond that is trading below its face value
- d) A bond that has a coupon rate higher than prevailing market interest rates

Answer: c) A bond that is trading below its face value

10. What is the formula to calculate the present value of a bond's cash flows?

- a) $PV = C / r$
- b) $PV = C / (1+r)^n$
- c) $PV = C * r$
- d) $PV = FV * r$

Answer: b) $PV = C / (1+r)^n$

Lec 15 - Bond valuation & yield on bonds

1. **What is the formula for calculating the yield to maturity on a bond?**

- A. $(\text{Annual coupon payment} + \text{Face value} - \text{Bond price}) / \text{Face value}$
- B. $(\text{Annual coupon payment} / \text{Bond price}) \times 100$
- C. $(\text{Annual coupon payment} + \text{Face value}) / \text{Bond price}$
- D. $(\text{Annual coupon payment} \times \text{Number of years}) / \text{Bond price}$

Answer: A

2. **Which of the following bond yields is used to calculate the price of a bond in the secondary market?**

- A. Yield to maturity
- B. Current yield
- C. Coupon rate
- D. Yield to call

Answer: A

3. **What happens to the price of a bond when its yield to maturity increases?**

- A. The price increases
- B. The price decreases
- C. The price remains the same
- D. The price fluctuates

Answer: B

4. **What is the relationship between the coupon rate and the yield to maturity on a bond?**

- A. They are equal
- B. The coupon rate is always higher
- C. The yield to maturity is always higher
- D. They may be equal or different depending on market conditions

Answer: D

5. **What is the formula for calculating the current yield on a bond?**

- A. $\text{Annual coupon payment} / \text{Bond price}$
- B. $(\text{Annual coupon payment} \times \text{Number of years}) / \text{Bond price}$
- C. $(\text{Annual coupon payment} + \text{Face value}) / \text{Bond price}$
- D. $(\text{Annual coupon payment} + \text{Face value} - \text{Bond price}) / \text{Face value}$

Answer: A

6. **Which of the following factors affects the yield to maturity on a bond?**

- A. Coupon rate
- B. Face value
- C. Bond price
- D. All of the above

Answer: D

7. **What is the formula for calculating the price of a bond?**

- A. $\text{Annual coupon payment} \times \text{Number of years}$
- B. $\text{Annual coupon payment} / \text{Bond price}$
- C. $(\text{Annual coupon payment} / \text{Yield to maturity}) \times (1 - 1 / (1 + \text{Yield to maturity})^{\text{Number of years}}) + \text{Face value} / (1 + \text{Yield to maturity})^{\text{Number of years}}$
- D. $\text{Face value} / \text{Bond price}$

Answer: C

8. Which of the following bonds has the highest default risk?

- A. Treasury bond
- B. Municipal bond
- C. Corporate bond
- D. Zero-coupon bond

Answer: C

9. What is the yield to call on a bond?

- A. The yield to maturity when the bond is called
- B. The yield earned on the bond when it is called
- C. The yield required by investors to hold the bond until it is called
- D. None of the above

Answer: C

10. What is the difference between the coupon rate and the yield to maturity on a premium bond?

- A. The coupon rate is higher than the yield to maturity
- B. The coupon rate is lower than the yield to maturity
- C. The coupon rate is equal to the yield to maturity
- D. It depends on market conditions

Answer: B

Lec 16 - Introduction to stocks and stock valuation

1. **What are stocks?** a) A type of bond b) A type of derivative c) Securities representing ownership in a company d) None of the above

Solution: c) Securities representing ownership in a company

2. **What is stock valuation?** a) The process of determining the price of a stock b) The process of determining the intrinsic value of a stock c) The process of determining the dividend yield of a stock d) None of the above

Solution: b) The process of determining the intrinsic value of a stock

3. **What are some factors considered in stock valuation?** a) Company's financial performance b) Growth potential c) Industry trends d) All of the above

Solution: d) All of the above

4. **Why is understanding stock valuation important?** a) To make informed investment decisions b) To maximize profits c) To minimize risks d) All of the above

Solution: d) All of the above

5. **What is the difference between a stock and a bond?** a) Stocks represent ownership in a company, while bonds represent debt b) Bonds represent ownership in a company, while stocks represent debt c) Stocks and bonds are the same thing d) None of the above

Solution: a) Stocks represent ownership in a company, while bonds represent debt

6. **What is the stock market?** a) A place where stocks are bought and sold b) A place where bonds are bought and sold c) A place where commodities are bought and sold d) None of the above

Solution: a) A place where stocks are bought and sold

7. **What is the difference between common stock and preferred stock?** a) Common stockholders have voting rights, while preferred stockholders do not b) Preferred stockholders have voting rights, while common stockholders do not c) Common stockholders receive dividends before preferred stockholders d) None of the above

Solution: a) Common stockholders have voting rights, while preferred stockholders do not

8. **What is a dividend?** a) A payment made by a company to its stockholders b) A payment made by a company to its creditors c) A payment made by a company to its employees d) None of the above

Solution: a) A payment made by a company to its stockholders

9. **What is a stock split?** a) When a company issues more shares of stock b) When a company reduces the number of shares of stock c) When a company changes the face value of its stock d) None of the above

Solution: a) When a company issues more shares of stock

10. **What is insider trading?** a) When a company's employees buy or sell the company's stock based on non-public information b) When a company's employees buy or sell the company's stock based on public information c) When a company's employees refuse to buy or sell the company's stock d) None of the above

Solution: a) When a company's employees buy or sell the company's stock based on non-public information

Lec 17 - Common stock pricing and dividend growth model

1. **The common stock pricing and dividend growth model is used to estimate the fair value of a stock based on:**
- Its historical dividend payments
 - Its expected future dividend payments
 - Its stock price at a given point in time
 - Its industry average P/E ratio

Answer: b) Its expected future dividend payments

2. **According to the dividend growth model, the value of a stock is equal to:**
- Its current stock price
 - The sum of its historical dividend payments
 - The sum of its expected future dividend payments
 - Its book value

Answer: c) The sum of its expected future dividend payments

3. **The discount rate used in the dividend growth model is typically:**
- The risk-free rate of return
 - The company's cost of equity
 - The industry average P/E ratio
 - The company's debt-to-equity ratio

Answer: b) The company's cost of equity

4. **If a company's dividend growth rate is expected to be 5% per year and its current annual dividend is \$2 per share, what is the expected dividend per share in 5 years?**
- \$2.63
 - \$2.78
 - \$3.10
 - \$3.24

Answer: c) \$3.10

5. **The dividend growth model assumes that the company's dividend growth rate will:**
- Increase over time
 - Remain constant over time
 - Decrease over time
 - Fluctuate randomly over time

Answer: b) Remain constant over time

6. **The dividend growth model can be used to estimate the fair value of:**
- Growth stocks
 - Value stocks
 - Income stocks
 - All of the above

Answer: c) Income stocks

7. If a company has a current stock price of \$50 and an expected annual dividend of \$2 per share, what is the expected dividend yield?
- a) 2%
 - b) 4%
 - c) 5%
 - d) 10%

Answer: b) 4%

8. The dividend growth model assumes that investors require a higher return on their investment as:
- a) The dividend growth rate increases
 - b) The dividend growth rate decreases
 - c) The discount rate increases
 - d) The discount rate decreases

Answer: c) The discount rate increases

9. If a company's cost of equity is 10% and its expected dividend growth rate is 5%, what is the expected dividend yield?
- a) 5%
 - b) 10%
 - c) 15%
 - d) 20%

Answer: a) 5%

10. The dividend growth model assumes that a company's future dividend payments are:
- a) Guaranteed to occur
 - b) Not guaranteed to occur
 - c) Guaranteed to increase over time
 - d) Not guaranteed to increase over time

Answer: b) Not guaranteed to occur

Lec 18 - Common stock - rate of return & EPS pricing model

- 1. What is the common stock - rate of return and EPS pricing model used for?**
 - A. To estimate the fair value of a stock
 - B. To calculate the company's net income
 - C. To measure the company's liquidity

Answer: A
- 2. The EPS in the common stock - rate of return and EPS pricing model stands for:**
 - A. Earnings Per Stock
 - B. Expected Price Stability
 - C. Earnings Per Share

Answer: C
- 3. The required rate of return in the common stock - rate of return and EPS pricing model represents:**
 - A. The investor's expected rate of return on the stock
 - B. The company's cost of equity
 - C. The company's net income

Answer: A
- 4. The fair value of a stock in the common stock - rate of return and EPS pricing model is calculated by:**
 - A. Dividing the expected EPS by the required rate of return
 - B. Multiplying the expected EPS by the required rate of return
 - C. Subtracting the expected EPS from the required rate of return

Answer: A
- 5. The expected growth rate in the common stock - rate of return and EPS pricing model represents:**
 - A. The expected rate of increase in the company's net income
 - B. The expected rate of increase in the company's stock price
 - C. The expected rate of increase in the company's dividends

Answer: A
- 6. The common stock - rate of return and EPS pricing model assumes:**
 - A. A constant growth rate in EPS
 - B. A variable growth rate in EPS
 - C. No growth in EPS

Answer: A
- 7. The EPS used in the common stock - rate of return and EPS pricing model should be:**
 - A. The expected EPS for the current year
 - B. The average EPS over the last five years
 - C. The projected EPS for the next five years

Answer: C
- 8. The required rate of return in the common stock - rate of return and EPS pricing model is influenced by:**
 - A. Market conditions
 - B. The company's perceived risk
 - C. Both A and B

Answer: C

9. **What is the main limitation of the common stock - rate of return and EPS pricing model?**
- A. It assumes a constant growth rate in EPS
 - B. It does not consider the company's debt levels
 - C. It does not account for market fluctuations

Answer: A

10. **How can the common stock - rate of return and EPS pricing model be used in conjunction with other valuation methods?**
- A. To compare and verify the results of other valuation methods
 - B. To replace other valuation methods altogether
 - C. To use in isolation as the most reliable valuation method

Answer: A

Lec 19 - Introduction to risk., risk and return for single stock investment

1. **What is risk in the context of single stock investment?**

- A) The profit generated by an investment
- B) The probability of achieving expected return
- C) The extent of fluctuations in the stock's returns
- D) The cost of investing in a stock

Answer: C

2. **What is the measure of risk associated with a stock?**

- A) Expected return
- B) Standard deviation
- C) Dividend yield
- D) Price to earnings ratio

Answer: B

3. **What factors can contribute to risk in single stock investment?**

- A) Market volatility
- B) Company-specific risks
- C) External factors like political instability
- D) All of the above

Answer: D

4. **What is the relationship between risk and return?**

- A) Negative
- B) No relationship
- C) Positive
- D) Inverse

Answer: C

5. **What is the meaning of return in single stock investment?**

- A) The probability of achieving expected return
- B) The profit generated by an investment
- C) The cost of investing in a stock
- D) The extent of fluctuations in the stock's returns

Answer: B

6. **What is the primary concern of investors when considering single stock investment?**

- A) Maximizing return
- B) Minimizing risk
- C) Balancing risk and return
- D) Achieving market average return

Answer: C

7. **Which of the following can contribute to company-specific risk in single stock investment?**

- A) Changes in leadership
- B) Changes in regulations
- C) Industry-wide trends
- D) All of the above

Answer: A

8. **What is the typical measure of market risk?**

- A) Standard deviation
- B) Beta
- C) Dividend yield
- D) Price to earnings ratio

Answer: B

9. **What is the primary way investors manage risk in single stock investment?**

- A) Diversification
- B) Short selling
- C) Margin trading
- D) Stock picking

Answer: A

10. **Which of the following factors can impact both risk and return in single stock investment?**

- A) Market volatility
- B) Company-specific risks
- C) Economic conditions
- D) All of the above

Answer: D

Lec 20 - Risk for single a stock investment probability graph and co-efficient of variation

1. **What is the purpose of a probability graph in relation to single stock investment?**
- A) To show the trend of the stock price over time
 - B) To display the likelihood of different returns occurring
 - C) To predict the future price of the stock
 - D) To compare the stock to other investments

Answer: B) To display the likelihood of different returns occurring

2. **What does a normal distribution curve represent in a probability graph?**
- A) The actual return of the stock
 - B) The expected return of the stock
 - C) The likelihood of different returns occurring
 - D) The trend of the stock price over time

Answer: C) The likelihood of different returns occurring

3. **What is the coefficient of variation (CV) used for in single stock investment?**
- A) To predict the future price of the stock
 - B) To measure the standard deviation of the stock's returns
 - C) To compare the risk of different investments with different expected returns
 - D) To measure the average return of the stock

Answer: C) To compare the risk of different investments with different expected returns

4. **A higher coefficient of variation (CV) indicates:**
- A) A greater degree of risk
 - B) A lower degree of risk
 - C) A higher average return
 - D) A lower average return

Answer: A) A greater degree of risk

5. **What does the coefficient of variation (CV) compare in single stock investment?**
- A) The standard deviation of the stock's returns to its mean return
 - B) The stock's current price to its historical price
 - C) The stock's expected return to the market's expected return
 - D) The stock's dividend yield to its market value

Answer: A) The standard deviation of the stock's returns to its mean return

6. **Which of the following is a factor that can contribute to risk in single stock investment?**
- A) Market stability
 - B) Company-specific risks
 - C) Low volatility
 - D) Political stability

Answer: B) Company-specific risks

7. **What is the relationship between risk and return in single stock investment?**

- A) Positive
- B) Negative
- C) Neutral
- D) It depends on the stock

Answer: A) Positive

8. **Which of the following strategies can be used to manage risk in single stock investment?**

- A) Diversification
- B) Setting stop-loss orders
- C) Utilizing hedging techniques
- D) All of the above

Answer: D) All of the above

9. **Which statistical measure of risk allows investors to compare the risk of different investments with different expected returns?**

- A) Standard deviation
- B) Coefficient of variation
- C) Sharpe ratio
- D) Beta coefficient

Answer: B) Coefficient of variation

10. **What is the purpose of risk management in single stock investment?**

- A) To eliminate all risk from the investment
- B) To balance risk and return
- C) To guarantee a certain level of return
- D) To increase the risk of the investment

Answer: B) To balance risk and return

Lec 21 - Two stock portfolio theory, risk and expected return

1. **What is the main concept of the two-stock portfolio theory?**

- A) Investing in two different stocks as a means of reducing investment risk.
- B) Investing in two highly correlated stocks to increase portfolio risk.
- C) Investing in a single stock to maximize portfolio risk.

Answer: A

2. **How can investors reduce portfolio risk through the two-stock portfolio theory?**

- A) By investing in two highly correlated stocks.
- B) By investing in a single stock.
- C) By investing in two stocks that are not highly correlated.

Answer: C

3. **What is the expected return of a two-stock portfolio?**

- A) It is the sum of the expected returns of each stock in the portfolio.
- B) It is the average of the expected returns of each stock in the portfolio.
- C) It is the weighted average of the expected returns of each stock in the portfolio.

Answer: C

4. **How does the correlation between two stocks in a portfolio affect the overall risk of the portfolio?**

- A) Higher correlation leads to higher portfolio risk.
- B) Lower correlation leads to higher portfolio risk.
- C) Correlation has no impact on portfolio risk.

Answer: B

5. **What is diversification in the context of a two-stock portfolio?**

- A) Spreading investments across multiple asset classes.
- B) Spreading investments across multiple stocks.
- C) Investing in a single stock.

Answer: B

6. **Which of the following is a potential benefit of the two-stock portfolio theory?**

- A) Increased portfolio risk.
- B) Decreased portfolio risk.
- C) Increased portfolio returns.

Answer: B

7. **How is portfolio risk calculated in the context of a two-stock portfolio?**

- A) It is the sum of the risks of each stock in the portfolio.
- B) It is the average of the risks of each stock in the portfolio.
- C) It is a function of the correlation between the two stocks.

Answer: C

8. **What is the expected return of a stock?**

- A) It is the return an investor can expect to receive on the stock.
- B) It is the price at which the stock is expected to be sold.
- C) It is the price at which the stock was purchased.

Answer: A

9. Which of the following factors is NOT considered when calculating the expected return of a two-stock portfolio?
- A) The expected return of each individual stock in the portfolio.
 - B) The correlation between the two stocks in the portfolio.
 - C) The total amount invested in the portfolio.

Answer: C

10. Which of the following is an example of diversification in a two-stock portfolio?
- A) Investing in two highly correlated stocks.
 - B) Investing in a single stock.
 - C) Investing in two stocks that are not highly correlated.

Answer: C

Lec 22 - Portfolio risk analysis and efficient portfolio maps

1. What is the efficient portfolio frontier?

- a) The set of portfolios that offer the highest expected return for a given level of risk
- b) The set of portfolios that offer the lowest expected return for a given level of risk
- c) The set of portfolios that offer the highest risk for a given level of return
- d) The set of portfolios that offer the lowest risk for a given level of return

Answer: a) The set of portfolios that offer the highest expected return for a given level of risk

2. What is the purpose of an efficient portfolio map?

- a) To show the expected return and risk of various portfolios
- b) To show the expected return of various portfolios
- c) To show the risk of various portfolios
- d) None of the above

Answer: a) To show the expected return and risk of various portfolios

3. What is the trade-off between risk and return?

- a) Higher risk generally leads to higher return, and lower risk generally leads to lower return
- b) Higher risk generally leads to lower return, and lower risk generally leads to higher return
- c) Risk and return are unrelated
- d) None of the above

Answer: b) Higher risk generally leads to lower return, and lower risk generally leads to higher return

4. Which of the following tools is used for portfolio risk analysis?

- a) Efficient portfolio frontier
- b) Efficient portfolio map
- c) Both a and b
- d) None of the above

Answer: c) Both a and b

5. What does the efficient portfolio frontier show?

- a) The set of portfolios that offer the highest expected return for a given level of risk
- b) The set of portfolios that offer the lowest expected return for a given level of risk
- c) The set of portfolios that offer the highest risk for a given level of return
- d) The set of portfolios that offer the lowest risk for a given level of return

Answer: a) The set of portfolios that offer the highest expected return for a given level of risk

6. What is the optimal portfolio?

- a) The portfolio with the highest expected return
- b) The portfolio with the lowest risk
- c) The portfolio that meets the investor's specific investment objectives
- d) None of the above

Answer: c) The portfolio that meets the investor's specific investment objectives

7. **What is the co-variance between two assets in a portfolio?**

- a) A measure of how much the returns of the two assets move together
- b) A measure of how much the returns of the two assets move in opposite directions
- c) A measure of how much the returns of the two assets are unrelated
- d) None of the above

Answer: a) A measure of how much the returns of the two assets move together

8. **What is the correlation coefficient between two assets in a portfolio?**

- a) A measure of how much the returns of the two assets move together
- b) A measure of how much the returns of the two assets move in opposite directions
- c) A measure of how much the returns of the two assets are unrelated
- d) None of the above

Answer: a) A measure of how much the returns of the two assets move together

9. **What is the risk of a portfolio with perfectly correlated assets?**

- a) Lower than the risk of a portfolio with uncorrelated assets
- b) Higher than the risk of a portfolio with uncorrelated assets
- c) Equal to the risk of a portfolio with uncorrelated assets
- d) None of the above

Answer: b) Higher than the risk of a portfolio with uncorrelated assets

10. **What is the benefit of diversification in a portfolio?**

- a) Lowering the risk of the portfolio
- b) Increasing the expected return of the

