21 Lecture - MGT201

Important Mcqs

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