

# 21 Lecture - MGT201

## Important Subjective

- 1. What is a portfolio in the context of stock investments?**  
Answer: A portfolio is a collection of stocks or other securities held by an investor.
- 2. What is diversification, and why is it important in stock portfolio theory?**  
Answer: Diversification means spreading your investments across different types of stocks or securities to reduce risk. It is important in portfolio theory because it helps to minimize the impact of any single stock's performance on the overall portfolio.
- 3. What is the difference between systematic and unsystematic risk?**  
Answer: Systematic risk refers to risks that are inherent in the entire market or economy, while unsystematic risk is specific to a particular company or industry.
- 4. How is expected return calculated in the context of portfolio theory?**  
Answer: Expected return is calculated by taking the weighted average of the expected returns of each stock in the portfolio, where the weights are the proportions of the portfolio invested in each stock.
- 5. What is the correlation coefficient, and how is it used in portfolio theory?**  
Answer: The correlation coefficient measures the degree to which two stocks move together. In portfolio theory, it is used to determine the degree of diversification achieved by adding a stock to an existing portfolio.
- 6. What is the efficient frontier in portfolio theory?**  
Answer: The efficient frontier is the set of portfolios that achieve the highest possible return for a given level of risk, or the lowest possible risk for a given level of return.
- 7. What is the Capital Asset Pricing Model (CAPM), and how is it used in portfolio theory?**  
Answer: The CAPM is a model that describes the relationship between risk and expected return. It is used in portfolio theory to calculate the expected return of a stock or portfolio given its level of risk.
- 8. What is the difference between a market portfolio and a risk-free asset?**  
Answer: A market portfolio is a portfolio that contains all stocks in the market, while a risk-free asset is an investment with no risk of loss.
- 9. What is the Sharpe ratio, and how is it used in portfolio theory?**  
Answer: The Sharpe ratio measures the excess return earned by a portfolio per unit of risk. It is used in portfolio theory to compare the performance of different portfolios.
- 10. What is the importance of regularly rebalancing a stock portfolio?**  
Answer: Regularly rebalancing a stock portfolio helps to maintain the desired level of risk and return, as well as ensure that the portfolio remains diversified. It also helps to avoid the risk of overconcentration in any one stock or sector.