23 Lecture - MGT201

Important Mcqs

1. **What is an efficient portfolio?**
   a) A portfolio that provides maximum return with minimum risk
   b) A portfolio that provides minimum return with maximum risk
   c) A portfolio that provides average return with average risk
   d) A portfolio that provides high return with high risk
   Answer: a) A portfolio that provides maximum return with minimum risk

2. **What is market risk?**
   a) Risk associated with a specific stock
   b) Risk associated with a specific industry
   c) Risk associated with the overall market
   d) None of the above
   Answer: c) Risk associated with the overall market

3. **What is the Capital Market Line (CML)?**
   a) A line that represents the expected return of inefficient portfolios
   b) A line that represents the expected return of efficient portfolios
   c) A line that represents the expected return of high-risk portfolios
   d) A line that represents the expected return of low-risk portfolios
   Answer: b) A line that represents the expected return of efficient portfolios

4. **What is the formula for calculating the expected return of a portfolio?**
   a) Expected return = (Portfolio weight x Individual stock return) + Risk-free rate
   b) Expected return = (Portfolio weight x Individual stock return) - Risk-free rate
   c) Expected return = (Portfolio weight x Individual stock return) x Risk-free rate
   d) None of the above
   Answer: a) Expected return = (Portfolio weight x Individual stock return) + Risk-free rate

5. **Which of the following is true for an efficient portfolio?**
   a) It lies below the CML
   b) It lies above the CML
   c) It lies on the CML
   d) It lies on the security market line (SML)
   Answer: c) It lies on the CML

6. **What is the slope of the CML?**
   a) Risk-free rate
   b) Market risk premium
   c) Beta
   d) Standard deviation
   Answer: b) Market risk premium

7. **What is the relationship between risk and return in an efficient portfolio?**
   a) Direct

b) Inverse
c) No relationship
d) None of the above
Answer: a) Direct

8. **What is the formula for calculating the expected return of the market portfolio?**
a) Expected return = Risk-free rate + Beta x (Market return - Risk-free rate)
b) Expected return = Beta x (Market return - Risk-free rate)
c) Expected return = Market return - Risk-free rate
d) None of the above
Answer: a) Expected return = Risk-free rate + Beta x (Market return - Risk-free rate)

9. **What is the difference between systematic risk and unsystematic risk?**
a) Systematic risk is the risk that can be diversified away while unsystematic risk cannot be diversified away
b) Unsystematic risk is the risk that can be diversified away while systematic risk cannot be diversified away
c) Both systematic and unsystematic risks can be diversified away
d) None of the above
Answer: b) Unsystematic risk is the risk that can be diversified away while systematic risk cannot be diversified away

10. **What is the Sharpe ratio?**
a) A measure of risk-adjusted return
b) A measure of market risk
c) A measure of unsystematic risk
d) A measure of systematic risk
Answer: a) A measure of risk-adjusted return