23 Lecture - MGT201

Important Subjective

1. **What is the efficient portfolio?**

Answer: An efficient portfolio is a portfolio that provides the highest return possible for a given level of risk.

2. **What is market risk?**

Answer: Market risk is the risk of an investment caused by factors that affect the entire market, such as economic downturns, political instability, and natural disasters.

3. **What is the Capital Market Line (CML)?**

Answer: The Capital Market Line (CML) is a line that represents the risk-return tradeoff for efficient portfolios. It is a graphical representation of the Capital Asset Pricing Model (CAPM).

4. **What is the difference between systematic and unsystematic risk?**

Answer: Systematic risk is the risk that is inherent in the entire market, while unsystematic risk is the risk that is specific to a particular security or industry.

5. **What is the beta of a security?**

Answer: The beta of a security is a measure of its volatility in relation to the overall market.

6. **What is the Security Market Line (SML)?**

Answer: The Security Market Line (SML) is a graphical representation of the Capital Asset Pricing Model (CAPM) that shows the expected return for a given level of risk.

7. **What is the Sharpe Ratio?**

Answer: The Sharpe Ratio is a measure of risk-adjusted performance that takes into account the return of an investment relative to its risk.

8. **What is the difference between a passive and an active investment strategy?**

Answer: A passive investment strategy involves investing in a portfolio that tracks the performance of a market index, while an active investment strategy involves attempting to outperform the market by picking individual stocks.

9. **What is the difference between a forward contract and a futures contract?**

Answer: A forward contract is a customized agreement between two parties to buy or sell an asset at a specific price on a specific date, while a futures contract is a standardized agreement to buy or sell an asset at a specific price on a specific date.

10. **What is diversification?**

Answer: Diversification is a strategy that involves investing in a variety of assets in order to reduce risk. By spreading investments across different asset classes, sectors, and industries, investors can minimize the impact of any single investment on their portfolio.