

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.