

25 Lecture - MGT201

Important Mcqs

1. **Which of the following is not true regarding beta?**

- A. Beta measures the sensitivity of a stock's return to changes in the market.
- B. A beta of 1 indicates that the stock's return is perfectly correlated with the market return.
- C. A beta of 0 indicates that the stock's return is uncorrelated with the market return.
- D. A beta of less than 1 indicates that the stock is less volatile than the market.

Answer: D

2. **The Security Market Line (SML) is a graphical representation of:**

- A. the relationship between expected returns and beta for individual securities.
- B. the relationship between risk and return for individual securities.
- C. the relationship between the market risk premium and the risk-free rate.
- D. the relationship between the risk-free rate and beta for individual securities.

Answer: A

3. **In an efficient market, which of the following statements is true?**

- A. All stocks have the same expected return.
- B. All stocks have the same risk.
- C. All stocks have the same price.
- D. None of the above.

Answer: D

4. **Which of the following statements is true regarding the Capital Asset Pricing Model (CAPM)?**

- A. It is used to estimate the expected return of a security.
- B. It assumes that investors are risk averse.
- C. It assumes that the market is inefficient.
- D. It assumes that all investors have the same expectations and information.

Answer: A

5. **If the risk-free rate increases, what happens to the Security Market Line (SML)?**

- A. It shifts upward.
- B. It shifts downward.
- C. It remains unchanged.
- D. It becomes steeper.

Answer: A

6. **Which of the following factors can affect a stock's beta?**

- A. The stock's industry.
- B. The stock's size.
- C. The stock's financial leverage.
- D. All of the above.

Answer: D

7. **Which of the following statements is true regarding the relationship between beta and required return?**
- A. The higher the beta, the lower the required return.
 - B. The higher the beta, the higher the required return.
 - C. Beta has no effect on required return.
 - D. There is an inverse relationship between beta and required return.

Answer: B

8. **Which of the following is not a limitation of the CAPM?**
- A. It assumes that investors are rational.
 - B. It assumes that all investors have the same expectations and information.
 - C. It assumes that markets are always efficient.
 - D. It does not take into account other factors that can affect a stock's return.

Answer: C

9. **Which of the following is true regarding efficient portfolios?**
- A. They are portfolios that have the highest possible return for a given level of risk.
 - B. They are portfolios that have the lowest possible risk for a given level of return.
 - C. They are portfolios that have the highest possible return and the lowest possible risk.
 - D. They are portfolios that have an expected return of zero.

Answer: A

10. **Which of the following statements is true regarding the relationship between risk and return in efficient markets?**
- A. There is a direct relationship between risk and return.
 - B. There is an inverse relationship between risk and return.
 - C. There is no relationship between risk and return.
 - D. The relationship between risk and return is different for each individual security.

Answer: A