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