26 Lecture - MGT201

Important Mcqs

1. **What does the SML graph represent?**
   A) The relationship between risk and return
   B) The relationship between stock prices and return
   C) The relationship between supply and demand
   D) The relationship between dividend yield and stock price
   Answer: A

2. **What is the equation for the SML?**
   A) Rf + ?(Rm - Rf)
   B) Rf - ?(Rm - Rf)
   C) Rf - ?(Rm + Rf)
   D) Rf + ?(Rm + Rf)
   Answer: A

3. **According to CAPM, what is the expected return on a stock?**
   A) Risk-free rate + Market risk premium
   B) Risk-free rate - Market risk premium
   C) Beta + Market risk premium
   D) Beta - Risk-free rate
   Answer: A

4. **In the context of CAPM, what does beta represent?**
   A) The risk-free rate
   B) The market risk premium
   C) The stock's volatility relative to the market
   D) The expected return on the market
   Answer: C

5. **According to CAPM, what is the expected return on a stock with a beta of 1.5 if the risk-free rate is 3% and the market risk premium is 8%?**
   A) 9%
   B) 12%
   C) 15%
   D) 18%
   Answer: B

6. **What does the market risk premium represent in the CAPM?**
   A) The difference between the risk-free rate and the expected return on the market
   B) The difference between the expected return on the market and the expected return on a risk-free asset
   C) The difference between the expected return on a stock and the expected return on the market
   D) The difference between the expected return on a stock and the risk-free rate
   Answer: B

7. **In the CAPM, what happens to the required rate of return on a stock as its beta increases?**
A) It decreases
B) It stays the same
C) It increases
D) It depends on the risk-free rate
Answer: C

8. **What is the risk-free rate in the CAPM?**
A) The rate of return on a risk-free asset
B) The rate of return on the market portfolio
C) The difference between the expected return on a stock and the expected return on a risk-free asset
D) The difference between the expected return on the market and the expected return on a risk-free asset
Answer: A

9. **According to the CAPM, what is the expected return on a stock with a beta of 0.5 if the risk-free rate is 2% and the market risk premium is 6%?**
A) 2%
B) 5%
C) 8%
D) 11%
Answer: C

10. **What is the market portfolio in the CAPM?**
A) The portfolio that contains all stocks in the market
B) The portfolio that contains only risky assets
C) The portfolio that contains all assets in the market
D) The portfolio that contains only risk-free assets
Answer: A