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 riskfree 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