# 27 Lecture - MGT201

# **Important Mcqs**

- 1. Which of the following is NOT a characteristic of systematic risk?
  - A) It cannot be diversified away.
  - B) It affects the entire market or a broad segment of it.
  - C) It is also known as market risk.
  - D) It is unique to a particular company or industry.

Answer: D) It is unique to a particular company or industry.

- 2. Which of the following is a measure of a security's systematic risk?
  - A) Alpha
  - B) Beta
  - C) R-squared
  - D) Standard deviation

# Answer: B) Beta

- 3. According to the Capital Asset Pricing Model (CAPM), the expected return on a security is equal to:
  - A) the risk-free rate plus the market risk premium.
  - B) the market return minus the risk-free rate.
  - C) the security's beta times the market risk premium.
  - D) the security's beta divided by the market risk premium.

Answer: A) the risk-free rate plus the market risk premium.

#### 4. The risk-free rate of return is typically measured using:

- A) the return on Treasury bills.
- B) the return on common stocks.
- C) the return on corporate bonds.
- D) the return on preferred stock.

#### Answer: A) the return on Treasury bills.

# 5. The Security Market Line (SML) in the CAPM represents:

- A) the relationship between a security's expected return and its beta.
- B) the relationship between a security's expected return and its standard deviation.
- C) the relationship between a security's expected return and its alpha.
- D) the relationship between a security's expected return and the market return.

Answer: A) the relationship between a security's expected return and its beta.

- 6. The beta of a diversified portfolio is:
  - A) the weighted average of the betas of the individual securities in the portfolio.

- B) always greater than 1.
- C) always less than 1.
- D) equal to the risk-free rate.

# Answer: A) the weighted average of the betas of the individual securities in the portfolio.

#### 7. Which of the following is a criticism of the CAPM?

- A) It assumes that investors are risk-averse.
- B) It assumes that investors have perfect information.
- C) It assumes that markets are efficient.
- D) It assumes that all investors have the same investment time horizon.

#### Answer: B) It assumes that investors have perfect information.

# 8. The Sharpe Ratio is a measure of:

- A) a security's systematic risk.
- B) a security's total risk.
- C) a security's excess return per unit of total risk.
- D) the relationship between a security's expected return and its beta.

#### Answer: C) a security's excess return per unit of total risk.

#### 9. Which of the following is an example of unsystematic risk?

- A) A global pandemic causing a market-wide downturn.
- B) A company's CEO being indicted for fraud.
- C) A new competitor entering the market.
- D) A rise in interest rates causing bond prices to fall.

# Answer: B) A company's CEO being indicted for fraud.

- 10. Which of the following is NOT a strategy for managing risk in a portfolio?
  - A) Diversification
  - B) Asset allocation
  - C) Market timing
  - D) Hedging

Answer: C) Market timing.