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.