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.