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Question 1

Question Type: MultipleChoice

The assumptions underlying the capital asset pricing model are as follows:

Options:

A- Investors are risk averse

B- Rational investors seek to hold efficient portfolios-that is, portfolios that are fully diversified

C- All investors have identical investment time horizons (i.e., expected holding periods)

D- The rate received from lending money is more than the cost of borrowing money

Answer:

D

Question 2

Question Type: MultipleChoice

Which of the following assumption is a base for the process of unlevering and relevering betas to an assumed capital structure?

Options:

A- Business interest subject to valuation has the ability to change the capital structure of the subject company

B- Investors are risk averse

C- Subject companies are at market value in this process

D- The amount of debt and equity at market value.

Answer:

A

Question 3

Question Type: **MultipleChoice**

It is possible (although not very common) for a security to have a negative beta (i.e. a beta less than zero). Such a beta would indicate that:

Options:

A- It is the result of aggressive securities

B- Betas for small and publicly traded companies are often unreliable

C- The returns of these securities are countercyclical to the returns of the board investment market index.

D- Risk-free return would be greater

Answer:

C

Question 4

Question Type: **MultipleChoice**

Beta is a factor used to measure:

Options:

A- Systematic risk

B- Unsystematic risk

C- Impact of size effect on risk

D- Equity risk premium

Answer:

A

Question 5

Question Type: **MultipleChoice**

The fundamental of CAPM is:

Options:

A- That the risk premium portion of the expected return on a security is a function of that security's systematic risk.

B- That the risk premium portion of the expected return on a security is a function of that security's unsystematic risk.

C- That the risk discount portion of the expected return on a security is a function of that security's systematic risk.

D- That the risk discount portion of the expected return on a security is a function of that security's unsystematic risk.

Answer:

A

Question 6

Question Type: MultipleChoice

_______________________ is the uncertainty of future returns resulting from the sensitivity of the return on the subject investment to movements in the return on the investment market as a whole.

Options:

A- Unsystematic risk

B- Systematic risk

C- Equity-risk premium

D- Investment-specific risk

Answer:

B

Question 7

Question Type: **MultipleChoice**

The capital asset pricing model is part of a larger body of economic theory known as capital market theory. Capital market theory also includes:

Options:

A- Security analysis

B- Portfolio management theory

C- A normative theory

D- Systematic theory

Answer:

A, B, C

Question 8

Question Type: **MultipleChoice**

The state of the art in the twenty-first century involves incorporating one or all of the following elements into the discount rate to reflect risk EXCEPT:

Options:

A- A basic equity risk premium over the risk --free rate selected as the base

B- One or more coefficients modifying the basic equity risk premium based on industry or other characteristics that are expected to affect the degree of risk for the subject investment

C- An element reflecting the size effect

D- None of these

Answer:

D

Question 9

Question Type: **MultipleChoice**

Which of the following is/are NOT out of components of the discount rate?

Options:

A- A "Risk-free rate" (the amount that an investor feels certain of realizing over the holding period). This includes:
a. A "rental rate" for forgoing the use of funds over the holding period
b. The expected rate of inflation over the holding period

B- A premium for risk, this includes:
a. Systematic risk (that risk that relates to improvements in returns on the investment market in general)
b. Unsystematic risk (that risk is specific to the subject investment)

C- Premium value

D- Discount rate

Answer:

C, D

Question 10

Question Type: **MultipleChoice**

If Paola Pizza Parlors stock started the year at $10 per share, paid $0.50 in cash dividends during the year, and ended the year ay $11.50 per share, then the total investment yield or rate of return for the year would be:

Options:

A- 0.30

B- 0.10

C- 0.50

D- 0.20

Answer:

D