MOCK MCQ TEST

SUBJECT: SECURITY ANALYSIS AND INVESTMENT MANAGEMENT (SAIM)

PAPER CODE: MS 225

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1. Information about return on an investment is as follows:
   (a) Risk free rate 10% (b) Market Return is 15% (c) Beta is 1.2
   What would be the return from this investment?
   a) 12%
   b) 14%
   c) 16%
   d) 18%

2. If the current market price is considered as a basis of CAPM, then what would happen if Actual Market Price < CAPM,
   a) stock is undervalued
   b) stock is overvalued
   c) stock is correctly valued

3. What should be the investment decision When CAPM < Expected Return ?

   a) Hold
   b) Buy
   c) Sell
   d) Sale later

4. If the Required rate of Return as per CAPM is 18% and expected return is 12%, what should be the investment decision?
   a) Hold
   b) Buy
   c) Sell
   d) Buy later

5. Which amongst the following is not included in the Phases of Portfolio Management?
   a) Security Analysis
   b) Capital Market theory
   c) Portfolio analysis
   d) Portfolio selection

6. Technical analyst concentrates more on price movements and ignores the fundamentals of the shares:
   a) True
   b) False
   c) Partially true

7. Fundamental analysis, does not concentrate on the fundamental factors affecting the company such as
   a) the dividend pay-out ratio,
   b) the competition faced by the company,
   c) Price Charts and Patterns
   d) the EPS of the company

8. Alpha is:
   (a) the intercept of the SML line.
   (b) the intercept of the CML line.
   (c) the actual excess return on a portfolio during one period.
   (d) a means of identifying superior or inferior portfolio performance

9. The fundamental analyst compares this intrinsic value (true worth of a security based on its fundamentals) with the

   a) Historical Market price
   b) Past intrinsic value
   c) Current market price.
   d) Expected Intrinsic value

10. Sharpe ratio and Treynor ratio measures which of the following:
    a) Standard Deviation
    b) Risk adjusted returns
    c) Beta
    d) Alpha factor

11. The return expected = ……….+ Beta portfolio (Return of Market - Risk Free Return)
    a) Standard Deviation
    b) Risk adjusted returns
    c) Risk Free Return
    d) Beta
    e) Alpha factor

12. Alpha = Return of Portfolio- ………..?

a) Beta
b) Expected Return
c) Standard Deviation
d) Risk Free Return

13. Total risk for common stocks is:

(a) the sum of systematic risk and diversifiable risk.
(b) measured by beta.
(c) the sum of market risk and systematic risk.
(d) the sum of diversifiable risk and unsystematic risk

14. The realized return

a) is what an investor actually obtains from his investment at the end of the investment period.
b) is what an investor expects to obtain from his investment at the end of the investment period.
c) is equivalent to risk free rate of return.
d) is what a creditor actually obtains from his investment at the end of the investment period.

15. Possible variation of the actual return from the expected return is termed as ?

a) Adjusted retruns
b) Risk
c) Probability
d) Systematic return

16. Market risk is also called:

a) systematic risk and unique risk.
b) nondiversifiable risk and systematic risk.
c) unique risk and nondiversifiable risk.
d) systematic risk and diversifiable risk.

17. Suppose you estimate the characteristic line for Stock X. You find that the standard deviation of X's error term is 7%, X's beta is 1.4, and the standard deviation of the market is 12%. What is the total standard deviation for Stock X?

a) 18.2%
b) 19.0%
c) 23.8%
d) 30.5%
e) 15.8%

18. The risk-free rate for the next year is 3%, and the market risk premium is expected to be 10%. The beta of Acme's stock is 1.5. If you believe that Acme's stock will actually return 18.2% over the next year, then according to the CAPM you should:

   a) be indifferent between buying and selling the stock.
   b) buy the stock because it is under priced.
   c) sell the stock because it is overpriced.
   d) sell the stock because it is under priced.
   e) buy the stock because it is overpriced.

19. Stock A has a beta of 1.0 and very high unique risk. If the expected return on the market is 20%, then according to the CAPM the expected return on Stock A will be:
   a) the answer cannot be found without knowing Stock A's correlation or covariance with the market.
   b) more than 20% because of Stock A's very high unique risk.
   c) exactly 20%.
   d) the answer cannot be found without knowing the risk-free rate of interest.
   e) at least 20% if the investor holds only Stock A.

20. The beta of the market portfolio is:
   a) 0.5
   b) –1.0
   c) 0
   d) 1.0

21. If an asset's expected return plots above the security market line, the asset is:
   a) fairly priced (if it has an unusually large amount of unique risk).
   b) under priced.
   c) overpriced.
   d) both the first and third answers.

22. Which one of the following is true?
   a) Alpha is the slope of the characteristic line.
   b) Beta is the slope of the capital market line.
   c) Beta is the slope of the security market line.
   d) Alpha is the slope of the opportunity line.
   e) All of the above are false.

23. The market risk premium is 15% and the risk-free rate is 5%. The beta of Asset D is 0.2. What is Asset D's expected return under the CAPM?
   a) 8%
   b) 20%
   c) 7%
   d) 30%

24. The market risk premium is the slope of:
   a) the efficient frontier.
   b) the capital market line.
   c) the security market line.
   d) the characteristic line.

25. According to the CAPM, overpriced securities have:
   a) negative betas.
   b) positive alphas.
   c) negative alphas.
   d) zero betas.
   e) zero alphas.

26. The beta of the risk-free asset is:
   a) 0.5
   b) 0
   c) 2.0
   d) 1.0
   e) –1.0

27. Capital asset pricing theory asserts that portfolio returns are best explained by:
   a) specific risk.
   b) systematic risk.
   c) economic factors.
   d) diversification.

28. The market portfolio has a beta of:
   a) 0.0
   b) –1.0
   c) 1.0
   d) 0.5
   e) 2.0

29. According to security market line, the expected return of any security is a function of:
   a) diversifiable risk.
   b) total risk.
   c) systematic risk.
   d) unsystematic risk.
   e) unique risk.

30. According to the capital market line, the expected return of any efficient portfolio is a function of:
    a) unique risk.
    b) systematic risk.
    c) unsystematic risk.
    d) total risk.

31. A long-term movement of prices, lasting from several months to years is called _________.
    a) a minor trend
    b) a primary trend
    c) an intermediate trend
    d) trend analysis
    e) B and D

32. Two popular moving average periods are
    a) 90-day and 52 week
    b) 180-day and three year
    c) 180-day two year
    d) 200-day and 53 week
    e) 200-day and two year

33. The most extreme form(s) of the Efficient Market Hypothesis (EMH) is
    a) Weak form
    b) Semi-Strong form
    c) Super Strong form
    d) Near Strong form
    e) Semi-Weak form

34. Which of the following statements pertaining to the Efficient Market Hypothesis (EMH) is/ are true?
    a) Successive short run absolute price changes are independent
    b) Successive short run absolute price changes are dependent
    c) Market comprises of rational investors
    d) Weak Form of EMH is also known as random walk model
    e) All of (a), (c) and (d) above

35. According to the Efficient Market Hypothesis (EMH)
    a) Stocks with smaller beta will be consistently overpriced.
    b) Stocks with higher beta will be consistently underpriced.
    c) Positive alphas on stocks will not remain for a longer period.

i. Only (I) above
ii. Only (III) above
iii. Both (I) and (II) above

iv. Both (II) and (III) above
v. All (I), (II) and (III) above

36. Which of the following statements is false with respect to different features of an efficient market?
    a) Information arbitrage efficiency is said to exist, if the participants do not have any scope to reap abnormal profits using information that is of common knowledge
    b) Fundamental valuation efficiency is said to exist, if the price of an asset is neither undervalued nor overvalued
    c) Full insurance efficiency is said to exist, if participants can adopt hedging as an effective tool against possible risk in future
    d) Allocation efficiency is said to exist, if the market channelizes resources into projects where the marginal efficiency of capital adjusted for risk differences is lowest

37. If security prices exhibits semi-strong form of efficiency, one will not gain if he
    a) Depicts the prices in the form of charts to identify pattern which will beat the market.
    b) Buys stock of a company which has declared a bonus issue or has gone for a stock split
    c) Refers to insiders' advice
    d) All of the above
    e) Both (a) and (b) above.

38. Which one of the following is the exponential factor for a 100-day Exponential Moving
Average?
    a) 0.01
    b) 0.2
    c) 0.02
    d) 0.002
    e) 20

39. Which of the following patterns is the most reliable and widely used for indicating trend reversal?
    a) Stochastics
    b) Moving Averages
    c) Rectangles
    d) Head and Shoulders

40. A top down analysis of a firm starts with ____________.

(a) the relative value of the firm
(b) the absolute value of the firm
(c) the domestic economy
(d) the global economy
(e) the industry outlook

41. Studies of stock price reactions to news are called

(a) reaction studies.
(b) event studies.
(c) drift studies.
(d) both reaction studies and drift studies.
(e) both event studies and drift studies.

42. The most widely used monetary tool is ___________.

(a) altering the discount rate
(b) altering the reserve requirements
(c) open market operations
(d) altering marginal tax rates
(e) none of the above

43. The "real", or inflation-adjusted, exchange rate, is

(a) the balance of trade.
(b) the budget deficit.
(c) the purchasing power ratio.
(d) unimportant to the U. S economy.
(e) none of the above.

44. The "normal" range of price-earnings ratios for the S&P500 Index is

(a) between 2 and 10.
(b) between 5 and 15.
(c) less than 8.
(d) between 12 and 25
(e) greater than 20.

45. A peak is ________.

(a) a transition from an expansion in the business cycle to the start of a contraction
(b) a transition from a contraction in the business cycle to the start of an expansion
(c) a depression that lasts more than three years.
(d) only something used by farmers to feed pigs and not an investment term
(e) none of the above

46. In the context of the Capital Asset Pricing Model (CAPM) the relevant measure of risk is

    a) unique risk.
    b) beta.
    c) standard deviation of returns.
    d) variance of returns.
    e) none of the above.

47. According to the Capital Asset Pricing Model (CAPM) a well diversified portfolio's rate of return is a function of
    a) market risk
    b) unsystematic risk
    c) unique risk.
    d) reinvestment risk.
    e) none of the above.

48. The risk-free rate and the expected market rate of return are 0.06 and 0.12, respectively. According to the capital asset pricing model (CAPM), the expected rate of return on security X with a beta of 1.2 is equal to
    a) 0.06.
    b) 0.144.
    c) 0.12.
    d) 0.132
    e) 0.18

49. The risk-free rate and the expected market rate of return are 0.056 and 0.125, respectively. According to the capital asset pricing model (CAPM), the expected rate of return on a security with a beta of 1.25 is equal to
    a) 0.142
    b) 0.144.
    c) 0.153.
    d) 0.134
    e) 0.117

50. Which statement is not true regarding the market portfolio?
    a) It includes all publicly traded financial assets.
    b) It lies on the efficient frontier.
    c) All securities in the market portfolio are held in proportion to their market values.
    d) It is the tangency point between the capital market line and the indifference curve.
    e) All of the above are true.

51. Which statement is not true regarding the Capital Market Line (CML)?
    a) The CML is the line from the risk-free rate through the market portfolio.
    b) The CML is the best attainable capital allocation line.
    c) The CML is also called the security market line.
    d) The CML always has a positive slope.
    e) The risk measure for the CML is standard deviation.

52. Which statement is true regarding the Capital Market Line (CML)?
    a) The CML is the line from the risk-free rate through the market portfolio.
    b) The CML is the best attainable capital allocation line.
    c) The CML is also called the security market line.
    d) The CML always has a positive slope.
    e) A, B, and D are true.

53. According to the Capital Asset Pricing Model (CAPM), the expected rate of return on any security is equal to
    a) Rf + β [E(RM)].
    b) Rf + β [E(RM) - Rf].
    c) β [E(RM) - Rf].
    d) E(RM) + Rf.
    e) none of the above.

54. The Security Market Line (SML) is
    a) the line that describes the expected return-beta relationship for well-diversified portfolios only.
    b) also called the Capital Allocation Line.
    c) the line that is tangent to the efficient frontier of all risky assets.
    d) the line that represents the expected return-beta relationship.
    e) the line that represents the relationship between an individual security's return and the market's return.

55. According to the Capital Asset Pricing Model (CAPM), fairly priced securities
    a) have positive betas.
    b) have zero alphas.
    c) have negative betas.
    d) have positive alphas.
    e) none of the above.

56. In a well diversified portfolio
    a) market risk is negligible.
    b) systematic risk is negligible.
    c) unsystematic risk is negligible.
    d) Non diversifiable risk is negligible.
    e) none of the above.

57. Empirical results regarding betas estimated from historical data indicate that
    a) betas are constant over time.
    b) betas of all securities are always greater than one.
    c) betas are always near zero.
    d) betas appear to regress toward one over time.
    e) betas are always positive.

58. The risk-free rate is 4 percent. The expected market rate of return is 11 percent. If you expect CAT with a beta of 1.0 to offer a rate of return of 11 percent, you should
    a) buy stock X because it is overpriced.
    b) sell short stock X because it is overpriced.
    c) sell stock short X because it is underpriced.

d) buy stock X because it is underpriced.
e) none of the above, as the stock is fairly priced.

59. The risk-free rate is 4 percent. The expected market rate of return is 11 percent. If you expect CAT with a beta of 1.0 to offer a rate of return of 13 percent, you should
a) buy stock X because it is overpriced.
b) sell short stock X because it is overpriced.
c) sell stock short X because it is underpriced.
d) buy stock X because it is underpriced.
e) none of the above, as the stock is fairly priced.

60. You invest 55% of your money in security A with a beta of 1.4 and the rest of your money in security B with a beta of 0.9. The beta of the resulting portfolio is
a) 1.466
b) 1.157
c) 0.968
d) 1.082
e) 1.175

ANSWER KEY

1	c	11	c	21	b	31	b	41	b	51	c
2	a	12	b	22	d	32	d	42	c	52	e
3	b	13	a	23	a	33	c	43	c	53	b
4	c	14	a	24	c	34	e	44	d	54	d
5	b	15	b	25	c	35	b	45	a	55	b
6	a	16	b	26	b	36	d	46	b	56	c
7	c	17	a	27	b	37	e	47	a	57	d
8	b	18	b	28	c	38	c	48	d	58	e
9	c	19	c	29	c	39	d	49	a	59	d
10	b	20	d	30	d	40	d	50	d	60	e