Subject : Portfolio Theory &Security Analysis

Chapter : 4,5 (Unit 2)

Practice Question Solution

1. The goal of an efficient portfolio is to________.

a. achieve a predetermined rate of return for a given level of risk
b. maximize risk in order to maximize profit
c. minimize profit in order to minimize risk
d. minimize risk for a given level of return

Solution: d

2. Perfectly ________correlated series move exactly together and have a correlation coefficient of________, while perfectly________correlated series move exactly in opposite directions and have a correlation coefficient of ________.

a. negatively; -1; positively; +1
b. negatively; +1; positively; -1
c. positively; -1; negatively; +1
d. positively; +1; negatively; -1

Solution: d

3. Combining negatively correlated assets having the same expected return results in a portfolio with________level of expected return and________level of risk.

a. a higher; a lower
b. the same; a higher
c. the same; a lower
d. a lower; a higher

Solution: c

4. The correlation of returns between Asset A and Asset B can be characterized as ________.

a. perfectly positively correlated
b. perfectly negatively correlated
c. uncorrelated
d. partially correlated

Solution: b

5. Which of the following investment products is *most likely* to trade at their net asset value per share?
   a. Exchange traded funds.
   b. Open-end mutual funds.
   c. Closed-end mutual funds.

   Solution: a

6. Which of the following financial products is *least likely* to have a capital gain distribution?
   a. Exchange traded funds.
   b. Open-end mutual funds.
   c. Closed-end mutual funds.

   Solution: a

7. Which of the following forms of pooled investments is subject to the *least* amount of regulation?
   a. Hedge funds.
   b. Exchange traded funds.
   c. Closed-end mutual funds.

   Solution: a

8. Which of the following pooled investments is *most likely* characterized by a few large investments?
   a. Hedge funds.
   b. Buyout funds.
   c. Venture capital funds.

   Solution: b