Q. Risk-averse investors make investment decisions that maximize:

A. both return and risk.
B. return irrespective of risk.
C. return for the same amount of risk.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:

Easy

Q. The correlation of returns between two securities with equal standard deviation of returns is 0.75. If the covariance of returns is $5.5\%^2$, the standard deviation of returns for each security is *closest* to:

A. 2.7%.
B. 3.7%.
C. 7.3%.

✖ A

✖ B

✖ C

Confidence Level:

Low	Medium	High

Confirm

Skip

Difficulty Level:
Difficult

Q. The global minimum-variance portfolio is a portfolio that lies:

A. anywhere along the minimum-variance frontier.
B. at the left-most point of the minimum-variance frontier.
C. at the upper right-most point of the minimum-variance frontier.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:

Easy

Q. An equally weighted portfolio is composed of two risky assets. If the correlation of asset returns is equal to zero, the portfolio standard deviation is:

A. equal to zero.
B. equal to the weighted average of the assets' standard deviations.
C. less than the weighted average of the assets' standard deviations.

✖ A

✖ B

✖ C

Confidence Level:

Low	Medium	High

Confirm

Skip

Difficulty Level:
Expert

Q. As the number of assets in an equally weighted portfolio becomes large, the portfolio's variance of returns *most likely* approaches:

A. zero.
B. the average variance of the individual assets' returns.
C. the average covariance between the individual assets' returns.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:
Difficult

Two assets have the following characteristics:

Variance of returns for Asset 1	0.05
Variance of returns for Asset 2	0.06
Correlation of returns between Asset 1 and Asset 2	0.75

Q. The variance of returns for an equally weighted portfolio of the two assets is *closest* to:

A. 0.038.
B. 0.048.
C. 0.055.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:
Difficult

A portfolio consists of two securities with the following characteristics:

	Expected Return	Standard Deviation of Returns
Security 1	17%	24%
Security 2	6%	12%

Q. If the portfolio has an expected return of 12.6% and the returns of the two securities are uncorrelated, the portfolio's standard deviation is *closest* to:

A. 13.4%.
B. 15.2%.
C. 19.2%.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:
Difficult

Q. For a risk-seeking investor, an investment in a risk-free asset generates utility that is:

A. less than the utility generated for a risk-averse investor.
B. equal to the utility generated for a risk-averse investor.
C. greater than the utility generated for a risk-averse investor.

✖ A

✖ B

✖ C

Confidence Level:

Low	Medium	High

Confirm

Skip

Difficulty Level:
Expert

Q. The Markowitz efficient frontier is *best* described as a curve that:

A. lies above and to the left of the minimum-variance frontier.
B. connects the minimum-variance portfolios for all possible returns.
C. contains all portfolios of risky assets that rational, risk-averse investors will choose.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:
Difficult

Q. When creating a long-only portfolio, which of the following correlation coefficients between assets would be *most* effective at reducing portfolio risk?

A. –0.5.
B. 0.
C. 0.5.

✖ A

✖ B

✖ C

Confidence Level:

Low | Medium | High

Confirm

Skip

Difficulty Level:
Moderate