**Topic 8 Knowledge Check**

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| Points: | 21 |

Started on Jun 21 at 22:14

Your Submission:

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1. Bookmark question for later

Given the information below, what is the expected return for Stock A? Submit your answer in decimal format.

Economic State        Probability *π*Returns for Stock A

Recessionary                 .40                                     10%

Expansionary                 .60                                     23%



1. Bookmark question for later

In a CAPM framework, why do investors hold the market portfolio?

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| * + The market has a lower beta than individual stocks.   + Relative to the level of risk, the market has higher expected return than individual stocks.   + Individual stocks have a higher market risk premium.   + Any stock with higher expected returns, relative to risk, will converge to the market portfolio. |
|  |

1. Bookmark question for later

Given the information below, what is the expected return of the portfolio made up of 25% of stock A, 35% of stock B, and 40% of stock C. Submit your answer in decimal format.

Economic State           Probability *π*Stock A           Stock B          Stock C

Recessionary                     .33                       10%                  15%                -4%

Expansionary                    .67                        8%                    -2%                 28%



1. Bookmark question for later

True or false: As the market risk premium increases, the CAPM suggests that expected returns for individual stocks will increase as well.

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| TrueFalse |
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1. Bookmark question for later

Given the information below, what is the expected return for Stock Z? Submit your answer in decimal format.

Economic State           Probability *π*Returns for Stock Z

Recessionary                   .25                                    3%

Normal                              .35                                  16%

Expansionary                  .40                                   26%



1. Bookmark question for later

Suppose returns over the last four years were 15%, 12%, 27%, and 21%. If the mean return over the past five years was 20%, what was the return five years ago? Submit your answer in decimal format.



1. Bookmark question for later

Given the information below, what is the expected return for Stock X? Submit your answer in decimal format.

Economic State          Probability *π*Returns for Stock X

Recessionary                     .15                                   -4%

Normal                                 .60                                  12%

Expansionary                     .25                                   21%



1. Bookmark question for later

True or false: If a firm has more idiosyncratic risk, then, according to the CAPM, the return required by shareholders will be higher.

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| TrueFalse |
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1. Bookmark question for later

What stock has a higher mean return?

|  |  |  |
| --- | --- | --- |
| Year | Stock A | Stock B |
| 2012 | 12% | 21% |
| 2011 | 14% | 15% |
| 2010 | 15% | 19% |
| 2009 | 9% | -3% |
| 2008 | 2% | -2% |

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| * + Stock A   + Stock B |
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1. Bookmark question for later

What is the expected rate of return for a stock where there is a 60% chance of a recession and a 40% chance of an expansion? The stock would return 2% during a recession and 8% in an expansionary period.

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| * + 0.050   + 0.100   + 0.056   + 0.044 |
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1. Bookmark question for later

Find the portfolio expected rate of return given the following information:

* + Expansion probability is 55%, recession probability is 45%
  + Stock A—Expansion return is 15%, recession return is 2%
  + Stock B—Expansion return is 12%, recession return is -3%
  + You own $75,000 worth of shares of Stock A and $15,000 worth of Stock B.

|  |
| --- |
| * + 0.1022   + 0.0754   + 0.0980   + 0.0851 |
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1. Bookmark question for later

There are two economic states, expansion and recession. The probability of an expansion is 70%; the probability of a recession is 30%. What is the expected return of Company A’s stock if it has an expected return of 2% in a recession and 10% in an expansion?

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| * + 0.0760   + 0.4218   + 0.0314   + 0.6000 |
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1. Bookmark question for later

What does the beta coefficient represent?

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| * + It is the expected return for a basket of preferred stocks.   + It is a statistically derived measure of volatility.   + It is the expected return minus the growth rate.   + It is the volatility of the risk free return. |
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1. Bookmark question for later

A stock has a beta of 2.1 and a market premium of 0.14 where the market rate is 0.17. What is the expected rate of return?

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| * + 0.3571   + 0.2949   + 0.3240   + 0.1703 |
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1. Bookmark question for later

The market rate is 0.14. Treasury bonds are returning 0.025. A stock has a beta of 0.75. What is that stock’s expected return?

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| * + 0.2491   + 0.1113   + 0.3007   + 0.1052 |
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1. Bookmark question for later

A stock has a beta of 1.42. The stock market is returning 0.11, and Treasury bills are trading at a rate of 0.014. What is the expected return?

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| * + 0.1085   + 0.1503   + 0.1240   + 0.1562 |
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1. Bookmark question for later

A stock has an expected return of 0.16. The market premium is 0.11, and federal funds are returning 0.025. What is the beta?

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| * + 1.4545   + 1.2273   + 2.2758   + 0.9870 |
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1. Bookmark question for later

The market rate is 0.09, and the risk-free rate is 0.015. If a stock has a beta of 1.92, what is the expected rate of return?

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| --- |
| * + 0.1275   + 0.1590   + 0.1500   + 0.1728 |
|  |

1. Bookmark question for later

What is the expected rate of return for a stock where Treasury bills are returning 2.5%, and the market as a whole is returning 15%? The stock has a beta of 1.25.

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| * + 0.181   + 0.100   + 0.156   + 0.125 |
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1. Bookmark question for later

What is the beta of a stock where the expected rate of return is 14%, the market premium is 7%, and the risk-free rate is 3%?

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| * + 0.95   + 1.57   + 1.90   + 1.45 |
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1. Bookmark question for later

If an investor knows the idiosyncratic risk, the investor knows the \_\_\_\_\_\_\_\_\_\_\_\_.

|  |
| --- |
| * + Operating leverage   + Free cash flow   + Profit margin percentage   + Beta coefficient |
|  |

Submit Assessment

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