Lesson #4 Quiz
Graded Quiz • 30 min
Due Nov 9, 4:59 PM +09

Congratulations! You passed!
TO PASS 80% or higher

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GRADE

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Lesson #4 Quiz

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1.
Question 1
Under the “Don’t put all your eggs in one basket” analogy, the eggs represent individual investments and the basket represents the overall investment portfolio. Spreading your “eggs” around allows you to:

1 / 1 point

Maximize the return of your overall portfolio.

Minimize the possibility that bad luck for a single investment adversely affects your overall portfolio.

Maximize the possibility that good luck for a single investment positively affects your overall portfolio.

Increase the uncertainty of your overall portfolio so you can try to generate an extra return.

Correct

This is the principle of risk diversification. By spreading the “eggs”, you allow for an under-performing investment to be balanced by another and outperforming one.

2.

Question 2

Risk diversification can be better achieved: (check all that apply)

1 / 1 point

With only stocks in your portfolio.

With mutual funds or unit investment trusts if you hold a small number of assets.

Correct

Diversification for individual assets is harder since you would have to buy fraction of other assets, which could be impossible or prohibitively expensive.

With only low risk assets in your portfolio.

By including in your portfolio all classes of assets traded in the market, independently of their risks.

Correct

Including all asset classes allows you to “average out” the extent of all potential sources of risk.

3.

Question 3

Short selling, which is defined as the sale of a security that the seller has borrowed, is motivated by the belief that:

1 / 1 point

Short selling is never prompted by speculation.

The price of the security will stay the same.

The price of the security will decline.

The price of the security will rise.

Correct

Buying back the security at a lower price will allow you to make a profit.

4.

Question 4

The expected return of a portfolio is computed as ___________ and the standard deviation of a portfolio is ___________.

1 / 1 point

the weighted average of the expected returns of each asset in the portfolio, weighted by the investment in each asset

NOT the weighted average of the standard deviations of each individual asset

the simple average of the expected returns of each asset in the portfolio

the weighted average of the standard deviations of each individual asset

the weighted average of the expected returns of each asset in the portfolio, weighted by the investment in each asset

the weighted average of the standard deviations of each individual asset

the simple average of the expected returns of each asset in the portfolio

NOT the weighted average of the standard deviations of each individual asset

Correct

5.

Question 5

An efficient portfolio is a combination of assets which:

1 / 1 point

Minimizes risk by ensuring only diversifiable risk remains.

Offers a risk free rate of return by minimizing the risk of the portfolio.

Achieves the highest possible covariance among its assets.

Achieves the highest return for a given risk.

Correct