9.13/周五

1. Solution: A.

Exchange traded funds do not have capital gain distributions. If an investor sells shares of an ETF (or open-end mutual fund or closed-end mutual fund), the investor may have a capital gain or loss on the shares sold; however, the gain (or loss) from the sale is not a distribution.

2. Solution: A.

(1 + 0.080)/(1 + 0.0250) – 1 = 5.4%

3. Solution: A.

An equally weighted portfolio of Asset 1 and Asset 2 has the highest level of volatility of the three pairs. All three pairs have the same expected return; however, the portfolio of Asset 1 and Asset 2 provides the least amount of risk reduction.

4. Solution: B.

As one moves further to the right of point M on the capital market line, an increasing amount of borrowed money is being invested in the market portfolio. This means that there is negative investment in the risk–free asset, which is referred to as a leveraged position in the risky portfolio.

5. Solution: B.

The slope of CML for investors borrowing at a higher borrowing rate will be lower.