**Questões e Feedbacks Atualizados – capítulo 23.**

1. **Question:** New issues are highly cyclical. **Answer:** T **Feedback:** The sentence is TRUE.
2. **Question:** The 'fees' paid to underwriters are a significant part of the transaction costs of an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
3. **Question:** The 'lock-up' period prevents company insiders from selling their shares in the secondary market for a certain time after the IPO. **Answer:** T **Feedback:** The sentence is TRUE.
4. **Question:** Investors in an IPO are guaranteed to receive shares at the offering price. **Answer:** F **Feedback:** The sentence is FALSE. Investors in an IPO are **not** guaranteed to receive shares at the offering price; allocation depends on demand, and the market price can fluctuate immediately after listing.
5. **Question:** One of the disadvantages of being a public company is the increased reporting and regulatory compliance requirements. **Answer:** T **Feedback:** The sentence is TRUE.
6. **Question:** A controlling shareholder completely loses control of the company after an IPO. **Answer:** F **Feedback:** The sentence is FALSE. A controlling shareholder does **not** necessarily lose complete control; mechanisms like dual-class share structures can help them retain significant influence.
7. **Question:** The Dutch auction method allows investors to bid for shares in an IPO, determining the final offer price. **Answer:** T **Feedback:** The sentence is TRUE.
8. **Question:** The secondary market involves the trading of existing shares among investors. **Answer:** T **Feedback:** The sentence is TRUE.
9. **Question:** A cash offer occurs when new shares are offered only to existing shareholders. **Answer:** F **Feedback:** The sentence is FALSE. A cash offer typically involves selling new shares to the **general public** or institutional investors, not exclusively to existing shareholders (that would be a rights offer).
10. **Question:** The 'quiet period' restricts communication from the company and underwriters to the public during the IPO process. **Answer:** T **Feedback:** The sentence is TRUE.
11. **Question:** An IPO prospectus is a confidential document only accessible to investment banks. **Answer:** F **Feedback:** The sentence is FALSE. An IPO prospectus is a **public document** filed with regulatory bodies (like the SEC or CVM) and made available to potential investors.
12. **Question:** The transaction costs of an IPO are usually low. **Answer:** F **Feedback:** The sentence is FALSE. The transaction costs of an IPO, including underwriting fees, legal fees, and administrative expenses, are typically **substantial**, often a significant percentage of the capital raised.
13. **Question:** The stock price reaction to an SEO is positive on average. **Answer:** F **Feedback:** The sentence is FALSE. The stock price reaction to an SEO (Seasoned Equity Offering) is, on average, **negative**, as it often signals potential dilution or a need for capital that can be interpreted negatively by the market.
14. **Question:** The two advantages of going public are greater liquidity and better access to capital. **Answer:** T **Feedback:** The sentence is TRUE.
15. **Question:** Market conditions, such as interest rates and general investor sentiment, affect the decision to conduct an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
16. **Question:** IPOs eliminate financial risk for company founders and early investors. **Answer:** F **Feedback:** The sentence is FALSE. While IPOs offer an **exit strategy** and liquidity, they do **not eliminate financial risk**; the market value of shares can fluctuate post-IPO, and founders/early investors remain exposed to market conditions.
17. **Question:** A seasoned equity offering (SEO) does not affect the price of existing shares in the market. **Answer:** F **Feedback:** The sentence is FALSE. An SEO **can affect** the price of existing shares, often leading to dilution and a potential downward pressure on the stock price.
18. **Question:** A roadshow is a series of presentations made by company executives to potential investors. **Answer:** T **Feedback:** The sentence is TRUE.
19. **Question:** A company's corporate governance tends to become more complex after an IPO due to new regulatory requirements. **Answer:** T **Feedback:** The sentence is TRUE.
20. **Question:** The primary market is where investors buy and sell shares of companies already listed on the stock exchange. **Answer:** F **Feedback:** The sentence is FALSE. The primary market is where **newly issued securities are sold for the first time** (e.g., in an IPO), while existing shares are traded in the secondary market.
21. **Question:** A 'greenshoe option' (over-allotment option) is used by underwriters to sell fewer shares than initially planned. **Answer:** F **Feedback:** The sentence is FALSE. A greenshoe option allows underwriters to sell **more shares** than initially planned to cover over-allotments and stabilize the stock price, not fewer.
22. **Question:** The underwriter's reputation has no significant impact on the success of an IPO. **Answer:** F **Feedback:** The sentence is FALSE. The underwriter's reputation **can significantly impact** the success of an IPO, as reputable underwriters often attract more investor interest and lend credibility to the offering.
23. **Question:** The process of selling stock to the public for the first time is called a seasoned equity offering (SEO) **Answer:** F **Feedback:** The sentence is FALSE. The process of selling stock to the public for the first time is called an **Initial Public Offering (IPO)**; a seasoned equity offering (SEO) occurs when a company already publicly traded issues additional shares.
24. **Question:** Due diligence is a critical process in an IPO to verify the company's financial and legal information. **Answer:** T **Feedback:** The sentence is TRUE.
25. **Question:** A privately held company can raise equity capital by selling shares publicly without conducting an IPO. **Answer:** F **Feedback:** The sentence is FALSE. A privately held company **must conduct an IPO** (or a direct listing) to sell its shares publicly on a stock exchange.
26. **Question:** IPO price stabilization is an activity that underwriters can undertake to prevent sharp drops in the price of newly issued shares. **Answer:** T **Feedback:** The sentence is TRUE.
27. **Question:** The CVM requires full disclosure of financials and risks in an IPO prospectus. **Answer:** T **Feedback:** The sentence is TRUE.
28. **Question:** Syndication is the formation of a group of investment banks to manage a large IPO. **Answer:** T **Feedback:** The sentence is TRUE.
29. **Question:** A seasoned equity offering (SEO) is the sale of stock by a company that is already publicly traded. **Answer:** T **Feedback:** The sentence is TRUE.
30. **Question:** The 'bookbuilding' process completely eliminates the risk of 'underpricing' or 'overpricing' in an IPO. **Answer:** F **Feedback:** The sentence is FALSE. While bookbuilding helps in price discovery, it does **not completely eliminate** the risk of underpricing (leaving money on the table) or overpricing (leading to a weak aftermarket performance).
31. **Question:** The 'underwriter's spread' represents the company's net profit after the IPO. **Answer:** F **Feedback:** The sentence is FALSE. The underwriter's spread is the **difference between the price paid by investors and the price received by the issuing company**, representing the underwriters' compensation for managing the IPO.
32. **Question:** Regulatory filings must be submitted before an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
33. **Question:** Underwriting is the process by which investment banks guarantee the sale of shares in an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
34. **Question:** Venture capital investors are typically the main target audience in a rights offer. **Answer:** F **Feedback:** The sentence is FALSE. Venture capital investors are typically involved in **private equity financing of young, growing companies**, while a rights offer targets existing shareholders.
35. **Question:** An IPO guarantees that the company will achieve its long-term financial goals. **Answer:** F **Feedback:** The sentence is FALSE. An IPO provides capital and visibility but **does not guarantee** the achievement of long-term financial goals, which depend on various factors including management, market conditions, and competition.
36. **Question:** A 'rights offer' is the sale of new shares to the general public in the market. **Answer:** F **Feedback:** The sentence is FALSE. A rights offer is a sale of new shares offered **specifically to existing shareholders**, giving them the "right" to purchase new shares to maintain their proportional ownership.
37. **Question:** Underwriters face no risk during an IPO, so that a greenshoe provision is usually not necessary. **Answer:** F **Feedback:** The sentence is FALSE. Underwriters **do face risk** during an IPO, especially if they guarantee to sell shares at a set price (firm commitment). A greenshoe provision is used to mitigate this risk by allowing them to stabilize the stock price.
38. **Question:** A private company goes public to facilitate future acquisitions or mergers by using its stock as currency. **Answer:** T **Feedback:** The sentence is TRUE.
39. **Question:** The liquidity of a private company's shares is typically higher than that of a publicly traded company. **Answer:** F **Feedback:** The sentence is FALSE. The liquidity of a private company's shares is typically **much lower** than that of a publicly traded company, as there is no organized market for their frequent trading.
40. **Question:** The main motivation for a company to conduct an IPO is usually access to much larger capital and greater liquidity for its shares. **Answer:** T **Feedback:** The sentence is TRUE.
41. **Question:** The transaction costs of an IPO are generally insignificant compared to the total value raised. **Answer:** F **Feedback:** The sentence is FALSE. The transaction costs of an IPO are typically **significant**, representing a considerable percentage of the gross proceeds raised.
42. **Question:** A 'cash offer' always ensures that shares are sold to existing shareholders. **Answer:** F **Feedback:** The sentence is FALSE. A cash offer is a type of seasoned equity offering where shares are sold to the **general public** or institutional investors, not exclusively to existing shareholders.
43. **Question:** The primary market involves the buying and selling of existing shares among investors. **Answer:** F **Feedback:** The sentence is FALSE. The primary market is where **new securities are first sold** to investors by the issuer; the secondary market is where existing securities are traded among investors.
44. **Question:** CVM (Comissão de Valores Mobiliários) is the regulatory body in Brazil responsible for overseeing the capital market, including IPOs. **Answer:** T **Feedback:** The sentence is TRUE.
45. **Question:** Institutional investors, like big Banks, who buy equity in small private firms are called angel investors. **Answer:** F **Feedback:** The sentence is FALSE. Institutional investors who buy equity in small private firms are typically called **venture capitalists** or private equity firms; angel investors are usually wealthy individuals who provide seed funding.
46. **Question:** The goal of an IPO for early investors (private equity, venture capital) is often to monetize their investment. **Answer:** T **Feedback:** The sentence is TRUE.
47. **Question:** A company that is already publicly traded is prohibited from conducting seasoned equity offerings (SEO). **Answer:** F **Feedback:** The sentence is FALSE. A company that is already publicly traded **can and often does conduct seasoned equity offerings (SEOs)** to raise additional capital after its IPO.
48. **Question:** Stock price volatility is common in the first few months after an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
49. **Question:** A 'dual-class share structure' allows founders to maintain disproportionate voting power. **Answer:** T **Feedback:** The sentence is TRUE.
50. **Question:** A company's decision to go public is generally a long-term strategic decision. **Answer:** T **Feedback:** The sentence is TRUE.
51. **Question:** In a greenshoe option, underwriters buy shares back from the market to stabilize the stock price. **Answer:** F **Feedback:** The sentence is FALSE. In a greenshoe option, underwriters **sell additional shares** to cover over-allotments and can buy shares back from the market only if the price falls below the offer price to stabilize it, but their primary function is to manage over-allotment.
52. **Question:** An SEO (Seasoned Equity Offering) can be a primary offering (new shares) or a secondary offering (shares from existing shareholders). **Answer:** T **Feedback:** The sentence is TRUE.
53. **Question:** The stock price of a newly public company is always stable in the first year post-IPO. **Answer:** F **Feedback:** The sentence is FALSE. The stock price of a newly public company is often **highly volatile** in the first year post-IPO, subject to market fluctuations, earnings reports, and analyst coverage.
54. **Question:** Market capitalization is a measure of a company's value, calculated by multiplying its stock price by the number of outstanding shares. **Answer:** T **Feedback:** The sentence is TRUE.
55. **Question:** A 'preliminary prospectus' guarantees that all information contained within is final and complete. **Answer:** F **Feedback:** The sentence is FALSE. A preliminary prospectus is an **initial draft** and states that the information is **not yet final or complete**, as it awaits regulatory approval and final pricing.
56. **Question:** Liquidity risk is one of the major concerns for investors in newly public companies. **Answer:** T **Feedback:** The sentence is TRUE.
57. **Question:** IPOs are underpriced on average. **Answer:** T **Feedback:** The sentence is TRUE.
58. **Question:** IPOs are always a cheaper method of raising capital than bank loans. **Answer:** F **Feedback:** The sentence is FALSE. IPOs typically involve **higher transaction costs** (underwriting fees, legal, accounting) compared to traditional bank loans, making them often a more expensive way to raise capital in terms of direct costs.
59. **Question:** An underwriter is an investment bank that manages the IPO process and helps the company sell its stock. **Answer:** T **Feedback:** The sentence is TRUE.
60. **Question:** Before an IPO, the company prepares the final registration statement and final prospectus containing all the details of the IPO, including the number of shares offered and the offer price. **Answer:** T **Feedback:** The sentence is TRUE.
61. **Question:** Bookbuilding is a process where underwriters collect indications of interest from investors to help price the IPO. **Answer:** T **Feedback:** The sentence is TRUE.
62. **Question:** The final offer price of an IPO is always determined exclusively by the issuing company. **Answer:** F **Feedback:** The sentence is FALSE. The final offer price of an IPO is typically determined through **negotiation between the issuing company and the lead underwriters**, often informed by the bookbuilding process and market conditions.
63. **Question:** An 'over-allotment option' can only be exercised if the stock price falls after the IPO. **Answer:** F **Feedback:** The sentence is FALSE. An over-allotment option (greenshoe) is typically exercised by underwriters **if the stock price rises** above the offering price in the aftermarket, allowing them to cover their short position.
64. **Question:** Quiet period is a term used to describe the period after an IPO when company executives cannot communicate with the public. **Answer:** F **Feedback:** The sentence is FALSE. The quiet period generally refers to the time **before and immediately after an IPO** when the company and underwriters are restricted from making public statements that could improperly influence the market for the new shares.
65. **Question:** An IPO always increases the wealth of existing shareholders. **Answer:** F **Feedback:** The sentence is FALSE. While IPOs often provide liquidity and can increase wealth, they **do not always guarantee an increase** in wealth for existing shareholders, as the stock price can fall below the offering price or even its pre-IPO valuation.
66. **Question:** IPO allocation refers to the process of distributing shares to interested investors. **Answer:** T **Feedback:** The sentence is TRUE.
67. **Question:** The lock-up period for insiders typically lasts for a short duration, usually a week. **Answer:** F **Feedback:** The sentence is FALSE. The lock-up period for insiders typically lasts for a **longer duration**, commonly 90 to 180 days (3 to 6 months), to prevent an immediate flood of shares onto the market.
68. **Question:** The volatility of newly issued stock prices is always lower in developed markets than in emerging markets. **Answer:** F **Feedback:** The sentence is FALSE. While developed markets might have more stable overall conditions, the volatility of *newly issued stock prices* in IPOs can be **high in any market**, regardless of development status, due to novelty and speculative interest.
69. **Question:** The aftermarket performance of an IPO is often unpredictable and subject to market conditions (but many IPOs have a positive first-day return). **Answer:** T **Feedback:** The sentence is TRUE.
70. **Question:** IPO pricing is a delicate balance between maximizing capital raised and ensuring good performance in the secondary market. **Answer:** T **Feedback:** The sentence is TRUE.
71. **Question:** Investment banks play a crucial role in pricing and marketing new stock issues. **Answer:** T **Feedback:** The sentence is TRUE.
72. **Question:** The 'roadshow' phase in an IPO aims to generate demand and educate potential investors about the company. **Answer:** T **Feedback:** The sentence is TRUE.
73. **Question:** The issuing company receives all the money from a secondary market stock sale. **Answer:** F **Feedback:** The sentence is FALSE. The issuing company **does not receive money** from a secondary market stock sale; the proceeds go to the selling shareholder, as it involves trading existing shares among investors.
74. **Question:** 'Analyst coverage' generally increases after an IPO, which can enhance the company's visibility. **Answer:** T **Feedback:** The sentence is TRUE.
75. **Question:** Underwriters in an IPO often form a syndicate to share the responsibility of selling the new issue. **Answer:** T **Feedback:** The sentence is TRUE.
76. **Question:** Regulatory requirements for public companies are generally more stringent than for private companies. **Answer:** T **Feedback:** The sentence is TRUE.
77. **Question:** Listing on a stock exchange is optional for companies conducting an IPO. **Answer:** F **Feedback:** The sentence is FALSE. Listing on a stock exchange is **not optional** for companies conducting an IPO, as it is the primary venue for public trading and liquidity for the shares.
78. **Question:** A 'Dutch auction' in an IPO favors investors who pay the highest prices for the shares. **Answer:** F **Feedback:** The sentence is FALSE. In a Dutch auction, all winning bidders pay the **same price**, which is the lowest successful bid, not necessarily the highest price they were willing to pay.
79. **Question:** Bookbuilding is a common method used by underwriters to determine the IPO price. **Answer:** T **Feedback:** The sentence is TRUE.
80. **Question:** A dual-class share structure allows company founders to maintain control even after going public. **Answer:** T **Feedback:** The sentence is TRUE.
81. **Question:** By going public, companies give their private equity investors the ability to diversify. **Answer:** T **Feedback:** The sentence is TRUE.
82. **Question:** CVM does not require companies to disclose their financial results after the IPO, only before. **Answer:** F **Feedback:** The sentence is FALSE. CVM (and other regulatory bodies like the SEC) **requires public companies to continuously disclose** their financial results and other material information after the IPO.
83. **Question:** The main goal of 'underpricing' in an IPO is to create positive sentiment and attract investors to the secondary market. **Answer:** T **Feedback:** The sentence is TRUE.
84. **Question:** Retail investors are always the first to receive share allocations in high-demand IPOs. **Answer:** F **Feedback:** The sentence is FALSE. In high-demand IPOs, **institutional investors and preferred clients** of the underwriting banks often receive priority in share allocations over retail investors.
85. **Question:** A common practice of early investors in private companies is to stay for a long time, i.e., years after the company's IPO. **Answer:** F **Feedback:** The sentence is FALSE. A common practice for early investors (like venture capitalists) is to **exit their investment** (sell their shares) within a few years after the IPO, as it provides liquidity for their prior investment.
86. **Question:** A company must always conduct an IPO to raise equity capital. **Answer:** F **Feedback:** The sentence is FALSE. A company does **not always** have to conduct an IPO to raise equity capital; it can also do so through private placements, venture capital, angel investors, or debt financing.
87. **Question:** A rights offer occurs when new shares are sold to investors at large. **Answer:** F **Feedback:** The sentence is FALSE. A rights offer involves selling new shares **exclusively to existing shareholders**, giving them the option to buy more shares to maintain their proportional ownership.
88. **Question:** The main disadvantage of going public is the complete elimination of financial risks for the company. **Answer:** F **Feedback:** The sentence is FALSE. Going public **does not eliminate financial risks**; instead, it introduces new ones such as market volatility, increased regulatory scrutiny, and public pressure on performance.
89. **Question:** Lock-up periods restrict company insiders from selling their shares immediately after an IPO. **Answer:** T **Feedback:** The sentence is TRUE.
90. **Question:** Share dilution occurs when new shares are issued, reducing the ownership percentage of existing shareholders. **Answer:** T **Feedback:** The sentence is TRUE.
91. **Question:** Venture capitalists typically do not seek board representation, as their primary interest is solely financial returns. **Answer:** F **Feedback:** The sentence is FALSE. Venture capitalists often demand board seats and significant control rights to protect their investment and guide the company's strategic direction.
92. **Question:** A Simple Agreement for Future Equity (SAFE) is a debt instrument that always requires regular interest payments before conversion to equity. **Answer:** F **Feedback:** The sentence is FALSE. A SAFE is an investment contract, not a debt instrument, and it typically does not accrue interest or require regular payments; its purpose is to convert into equity at a future financing round.
93. **Question:** Private equity firms primarily focus on investing in early-stage startup companies, similar to angel investors. **Answer:** F **Feedback:** The sentence is FALSE. Private equity firms primarily invest in existing, more mature privately held firms or take publicly traded companies private through leveraged buyouts (LBOs), differing from the early-stage focus of angel investors or venture capitalists.
94. **Question:** The main purpose of a stock exchange listing after an IPO is to directly provide additional capital to the issuing company through continuous share sales. **Answer:** F **Feedback:** The sentence is FALSE. While an IPO raises capital for the issuing company, the main purpose of a stock exchange listing is to provide a public market for the **secondary trading** of existing shares among investors, offering liquidity to shareholders.
95. **Question:** The 'Winner's Curse' in IPOs suggests that investors who receive full allocation of shares are typically the most informed and will consistently achieve the highest returns. **Answer:** F **Feedback:** The sentence is FALSE. The 'Winner's Curse' indicates that investors who receive full allocation often do so because demand from others was low, implying they may have overestimated the value of the shares, leading to poorer performance.
96. **Question:** In a liquidation scenario, common stockholders always receive payment before holders of preferred stock with liquidation preference. **Answer:** F **Feedback:** The sentence is FALSE. Holders of preferred stock with liquidation preference are typically paid a minimum amount before any payments are distributed to common stockholders in a liquidation event.
97. **Question**: A "seed round" of funding, typically led by angel investors, always involves the issuance of common stock with full voting rights. **Answer**: F. **Feedback**: The sentence is FALSE. A seed round, especially with angel investors, often involves convertible notes or SAFEs (Simple Agreements for Future Equity) rather than immediate common stock, or preferred stock without full voting rights.
98. **Question**: Private equity firms typically hold their portfolio company investments for very short periods, usually less than one year, to maximize quick returns. **Answer**: F. **Feedback**: The sentence is FALSE. Private equity firms typically hold their investments for medium to long terms to implement operational improvements and achieve significant value creation before exiting.
99. **Question**: Venture capital firms prefer to invest in mature companies with established revenue streams and low growth potential, as these present less risk. **Answer**: F **Feedback**: The sentence is FALSE. Venture capital firms specifically target early-stage, high-growth potential companies, even if they are pre-revenue, seeking significant returns on innovative but higher-risk ventures.
100. **Question:** Corporate investors, such as large companies, invest in private firms solely for financial returns, with no interest in strategic objectives. **Answer:** F **Feedback:** The sentence is FALSE. While corporate investors seek financial returns, they often invest in private companies for **corporate strategic objectives** (e.g., access to new technology, markets, or talent), in addition to or sometimes even prioritized over purely financial returns.

**Questões e Feedbacks Atualizados – capítulo 10.**

1. **Question:** Diversification can entirely eliminate systematic risk from a portfolio. **Answer:** F **Feedback:** The sentence is FALSE. Diversification can only eliminate unsystematic (idiosyncratic) risk; systematic (market) risk cannot be entirely eliminated through diversification.
2. **Question:** In finance, risk refers to the uncertainty that an investment's actual return will differ from its expected return. **Answer:** T **Feedback:** The sentence is TRUE.
3. **Question:** The Capital Market Line (CML) provides the expected return for portfolios that combine the risk-free asset with the market portfolio. **Answer:** T **Feedback:** The sentence is TRUE.
4. **Question:** The total risk of a security represents only its systematic risk. **Answer:** F **Feedback:** The sentence is FALSE. The total risk of a security represents both its systematic risk (non-diversifiable) and its unsystematic risk (diversifiable).
5. **Question:** Systematic risk affects the entire market and cannot be eliminated through diversification. **Answer:** T **Feedback:** The sentence is TRUE.
6. **Question:** Systematic risk is specific to individual assets and can be diversified away by holding a diversified portfolio. **Answer:** F **Feedback:** The sentence is FALSE. Systematic risk is broad market risk that cannot be diversified away. Unsystematic risk is specific to individual assets and can be diversified away.
7. **Question:** The expected, or mean, return is the return we expect to earn on average. **Answer:** T **Feedback:** The sentence is TRUE.
8. **Question:** A portfolio with a beta of 1.5 would be expected to have lower systematic risk than the market portfolio. **Answer:** F **Feedback:** The sentence is FALSE. A portfolio with a beta of 1.5 would be expected to have higher systematic risk than the market portfolio, as it is more sensitive to market movements.
9. **Question:** The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets. **Answer:** T **Feedback:** The sentence is TRUE.
10. **Question:** The expected return on the market portfolio (E[RM]) is always expected to be greater than the risk-free rate (Rf). **Answer:** T **Feedback:** The sentence is TRUE.
11. **Question:** Diversification involves spreading investment across different assets to reduce risk. **Answer:** T **Feedback:** The sentence is TRUE.
12. **Question:** The correlation coefficient ranges from -1 to +1. **Answer:** T **Feedback:** The sentence is TRUE.
13. **Question:** Historically, over long horizons, investments in stocks are expected to outperform investments in bonds. **Answer:** T **Feedback:** The sentence is TRUE.
14. **Question:** The beta of a risk-free asset is zero. **Answer:** T **Feedback:** The sentence is TRUE.
15. **Question:** The market risk premium is the expected average return of the market portfolio. **Answer:** F **Feedback:** The sentence is FALSE. The market risk premium is the excess return investors expect to earn from investing in the market portfolio over the risk-free rate, not just the expected average return of the market portfolio itself.
16. **Question:** The Security Market Line (SML) graphically represents the relationship between total risk and expected return. **Answer:** F **Feedback:** The sentence is FALSE. The Security Market Line (SML) graphically represents the relationship between systematic risk (Beta) and expected return, not total risk.
17. **Question:** The risk-free rate is typically associated with the return on short-term government securities. **Answer:** T **Feedback:** The sentence is TRUE.
18. **Question:** The realized or total return for an investment is the total return of the dividend yield and the capital gain rate. **Answer:** T **Feedback:** The sentence is TRUE.
19. **Question:** The CAPM provides a framework for determining the appropriate required rate of return of an asset. **Answer:** T **Feedback:** The sentence is TRUE.
20. **Question:** The Sharpe ratio measures the risk premium earned per unit of total risk. **Answer:** T **Feedback:** The sentence is TRUE.
21. **Question:** The expected return of a security is always positive. **Answer:** F **Feedback:** The sentence is FALSE. The expected return of a security can be negative, especially for high-risk investments or in periods of market downturns.
22. **Question:** A portfolio's systematic risk can be completely eliminated by adding more stocks. **Answer:** F **Feedback:** The sentence is FALSE. A portfolio's systematic risk cannot be completely eliminated by adding more stocks; only unsystematic (idiosyncratic) risk can be diversified away.
23. **Question:** Beta measures a stock’s sensitivity to market movements. **Answer:** T **Feedback:** The sentence is TRUE.
24. **Question:** The geometric average return is the average compound return earned per year over a multi-year period. **Answer:** T **Feedback:** The sentence is TRUE.
25. **Question:** Cyclical stocks typically have higher betas than defensive stocks. **Answer:** T **Feedback:** The sentence is TRUE.
26. **Question:** The concept of "risk premium" refers to the additional return investors expect to compensate them for taking on risk. **Answer:** T **Feedback:** The sentence is TRUE.
27. **Question:** A company’s bankruptcy due to poor financial management is an example of unsystematic risk. **Answer:** T **Feedback:** The sentence is TRUE.
28. **Question:** An assumption of the CAPM is that only informed investors are allowed to borrow or lend at the risk-free rate. **Answer:** F **Feedback:** The sentence is FALSE. An assumption of the CAPM is that all investors can borrow or lend at the risk-free rate, regardless of their information level.
29. **Question:** If investors have homogeneous expectations, then each investor will identify the same portfolio as having the highest Sharpe ratio in the economy. **Answer:** T **Feedback:** The sentence is TRUE.
30. **Question:** Investors are assumed to be risk-averse in the context of the CAPM. **Answer:** T **Feedback:** The sentence is TRUE.
31. **Question:** The risk-return tradeoff suggests that higher returns are associated with higher levels of risk. **Answer:** T **Feedback:** The sentence is TRUE.
32. **Question:** Systematic risk, also known as market risk, is the risk that is inherent to the entire market or an entire market segment. **Answer:** T **Feedback:** The sentence is TRUE.
33. **Question:** Economic recessions are a source of systematic risk. **Answer:** T **Feedback:** The sentence is TRUE.
34. **Question:** The beta of a portfolio is the weighted average of the betas of the individual securities in the portfolio. **Answer:** T **Feedback:** The sentence is TRUE.
35. **Question:** Unsystematic risk can be reduced or eliminated through portfolio diversification. **Answer:** T **Feedback:** The sentence is TRUE.
36. **Question:** A security plotted above the SML is considered undervalued, suggesting its expected return is higher than its CAPM-predicted return. **Answer:** T **Feedback:** The sentence is TRUE.
37. **Question:** The optimal risky portfolio on the efficient frontier has the highest Sharpe ratio. **Answer:** T **Feedback:** The sentence is TRUE.
38. **Question:** The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets. **Answer:** T **Feedback:** The sentence is TRUE.
39. **Question:** The efficient frontier represents the set of portfolios that offer the highest expected return for a given level of risk or the lowest risk for a given expected return. **Answer:** T **Feedback:** The sentence is TRUE.
40. **Question:** The expected return of a portfolio is the weighted average of the expected returns of its individual assets. **Answer:** T **Feedback:** The sentence is TRUE.
41. **Question:** The dividend yield is the annual dividend per share divided by the current stock price. **Answer:** T **Feedback:** The sentence is TRUE.
42. **Question:** Systematic risk is measured using beta, which indicates how a stock moves relative to the market. **Answer:** T **Feedback:** The sentence is TRUE.
43. **Question:** The slope of the Security Market Line (SML) represents the market risk premium. **Answer:** T **Feedback:** The sentence is TRUE.
44. **Question:** Beta can be estimated by regressing a stock's historical returns against the market's historical returns. **Answer:** T **Feedback:** The sentence is TRUE.
45. **Question:** A stock with a beta greater than 1 is considered more volatile than the market. **Answer:** T **Feedback:** The sentence is TRUE.
46. **Question:** Diversification benefits are greatest when assets have low or negative correlation. **Answer:** T **Feedback:** The sentence is TRUE.
47. **Question:** The beta of a company's stock can change over time. **Answer:** T **Feedback:** The sentence is TRUE.
48. **Question:** The market risk premium represents the excess return that investors expect to earn from investing in the market over the risk-free rate. **Answer:** T **Feedback:** The sentence is TRUE.
49. **Question:** Government policies, wars, and natural disasters can contribute to systematic risk. **Answer:** T **Feedback:** The sentence is TRUE.
50. **Question:** Standard deviation is a measure of the total risk of an investment. **Answer:** T **Feedback:** The sentence is TRUE.
51. **Question:** Because investors can eliminate idiosyncratic risk, they do not require a risk premium for taking it on. **Answer:** T **Feedback:** The sentence is TRUE.
52. **Question:** The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets. **Answer:** T **Feedback:** The sentence is TRUE.
53. **Question:** Investors holding a single stock are more exposed to unsystematic risk compared to those holding a diversified portfolio. **Answer:** T **Feedback:** The sentence is TRUE.
54. **Question:** The expected, or mean, return is the return we expect to earn on average. **Answer:** T **Feedback:** The sentence is TRUE.
55. **Question:** Market efficiency is an assumption often made when using the CAPM. **Answer:** T **Feedback:** The sentence is TRUE.
56. **Question:** The CAPM assumes that there are no taxes or transaction costs. **Answer:** T **Feedback:** The sentence is TRUE.
57. **Question:** The intercept of the Security Market Line (SML) is the risk-free rate. **Answer:** T **Feedback:** The sentence is TRUE.
58. **Question:** Historical average stock returns have generally been higher than historical average bond returns. **Answer:** T **Feedback:** The sentence is TRUE.
59. **Question:** The higher the Sharpe ratio, the better the risk-adjusted return. **Answer:** T **Feedback:** The sentence is TRUE.
60. **Question:** The Capital Market Line (CML) provides the expected return for portfolios that combine the risk-free asset with the market portfolio. **Answer:** T **Feedback:** The sentence is TRUE.
61. **Question:** The following risk is an example of firm-specific risk: The risk that a product design is faulty and the product must be recalled. **Answer:** T **Feedback:** The sentence is TRUE.
62. **Question:** The following risk is an example of firm-specific risk: The risk that the founder and CEO retires. **Answer:** T **Feedback:** The sentence is TRUE.
63. **Question:** Unlike systematic risk, unsystematic risk is unique to a specific company or industry. **Answer:** T **Feedback:** The sentence is TRUE.
64. **Question:** Examples of unsystematic risk include management decisions, product recalls, and labor strikes. **Answer:** T **Feedback:** The sentence is TRUE.
65. **Question:** Unsystematic risk is also known as firm-specific or idiosyncratic risk. **Answer:** T **Feedback:** The sentence is TRUE.
66. **Question:** The capital allocation line (CAL) represents portfolios combining a risk-free asset with a risky portfolio. **Answer:** T **Feedback:** The sentence is TRUE.
67. **Question:** According to CAPM, the expected return of a security depends only on its systematic risk. **Answer:** T **Feedback:** The sentence is TRUE.
68. **Question:** Unsystematic risk includes risks from changes in interest rates and inflation. **Answer:** F **Feedback:** The sentence is FALSE. Risks from changes in interest rates and inflation are examples of systematic risk, as they affect the entire market, not just specific companies.
69. **Question:** The market portfolio in CAPM consists only of stocks listed on major exchanges. **Answer:** F **Feedback:** The sentence is FALSE. In theory, the market portfolio in CAPM consists of all risky assets in the economy, weighted by their market value, not just major exchange-listed stocks.
70. **Question:** The following risk is an example of firm-specific risk: The risk that the economy slows, reducing demand for the firm’s products. **Answer:** F **Feedback:** The sentence is FALSE. The risk that the economy slows is an example of systematic (market) risk, as it impacts many firms across different sectors, not just a specific firm.
71. **Question:** Diversification can be entirely eliminated by investing in only one type of asset. **Answer:** F **Feedback:** The sentence is FALSE. Diversification is about spreading risk; investing in only one type of asset eliminates diversification benefits, thus increasing specific risk exposure.
72. **Question:** The expected return of a security is always positive. **Answer:** F **Feedback:** The sentence is FALSE. The expected return of a security can be negative, especially for high-risk investments or in periods of market downturns.
73. **Question:** If a security has a beta of 1, it means it has no systematic risk. **Answer:** F **Feedback:** The sentence is FALSE. If a security has a beta of 1, it means its systematic risk is equal to that of the overall market, not that it has no systematic risk.
74. **Question:** The Security Market Line (SML) is always a horizontal line, indicating a constant expected return regardless of risk. **Answer:** F **Feedback:** The sentence is FALSE. The Security Market Line (SML) is a sloped line, illustrating that higher systematic risk (beta) is associated with higher expected returns.
75. **Question:** A stock with a beta of zero has the same expected return as the market portfolio. **Answer:** F **Feedback:** The sentence is FALSE. A stock with a beta of zero has the same expected return as the risk-free rate, not the market portfolio.
76. **Question:** Adding a highly correlated asset to a portfolio provides significant diversification benefits. **Answer:** F **Feedback:** The sentence is FALSE. Adding a lowly or negatively correlated asset provides significant diversification benefits, whereas a highly correlated asset provides minimal benefits.
77. **Question:** Alpha, in the context of CAPM, measures the expected return due to systematic risk. **Answer:** F **Feedback:** The sentence is FALSE. Alpha measures the excess return above what the CAPM predicts, indicating performance not explained by systematic risk.
78. **Question:** Investors always prefer investments with lower risk, even if it means sacrificing potential returns. **Answer:** F **Feedback:** The sentence is FALSE. Investors are typically risk-averse, meaning they prefer lower risk for a given return, but they will take on higher risk if compensated with sufficiently higher potential returns.
79. **Question:** The following risk is an example of firm-specific risk: The risk that oil prices rise, increasing production costs. **Answer:** F **Feedback:** The sentence is FALSE. The risk that oil prices rise is an example of systematic (market) risk, as it affects many industries and the overall economy, not just a specific firm.
80. **Question:** A defensive stock typically has a beta greater than 1. **Answer:** F **Feedback:** The sentence is FALSE. A defensive stock typically has a beta less than 1, meaning it is less volatile than the overall market.
81. **Question:** Unsystematic risk affects all companies in the market equally. **Answer:** F **Feedback:** The sentence is FALSE. Unsystematic risk is specific to individual companies or industries and therefore affects them differently, not equally.
82. **Question:** A company-specific lawsuit is an example of systematic risk. **Answer:** F **Feedback:** The sentence is FALSE. A company-specific lawsuit is an example of unsystematic (or firm-specific) risk, not systematic risk.
83. **Question:** The variance of a portfolio is simply the weighted average of the variances of the individual assets in the portfolio. **Answer:** F **Feedback:** The sentence is FALSE. The variance of a portfolio is not simply the weighted average of individual variances; it also depends on the covariances (or correlations) between the assets.
84. **Question:** Capital gains always represent a positive return on investment. **Answer:** F **Feedback:** The sentence is FALSE. Capital gains refer to the change in an asset's price and can be negative (capital loss) if the price decreases.
85. **Question:** Investors always choose a portfolio on the efficient frontier regardless of their risk tolerance. **Answer:** F **Feedback:** The sentence is FALSE. Investors choose a portfolio on the efficient frontier that aligns with their individual risk tolerance, selecting the optimal portfolio for their specific risk-return preference.
86. **Question:** Systematic risk refers only to the risk associated with large-cap stocks. **Answer:** F **Feedback:** The sentence is FALSE. Systematic risk refers to market-wide risk that affects all types of stocks, regardless of their market capitalization.
87. **Question:** A correlation coefficient of +1.0 indicates that two assets' returns move in opposite directions. **Answer:** F **Feedback:** The sentence is FALSE. A correlation coefficient of +1.0 indicates that two assets' returns move in the same direction perfectly, while -1.0 indicates perfectly opposite directions.
88. **Question:** In CAPM, investors only care about idiosyncratic risk, not systematic risk. **Answer:** F **Feedback:** The sentence is FALSE. In CAPM, investors are only compensated for systematic risk because idiosyncratic risk can be diversified away. Therefore, they primarily care about systematic risk.
89. **Question:** Expected return is the realized return of an investment over a specific period. **Answer:** F **Feedback:** The sentence is FALSE. Expected return is a forward-looking estimate, while realized return is the actual return earned over a past period.
90. **Question:** A higher standard deviation always implies a higher expected return. **Answer:** F **Feedback:** The sentence is FALSE. A higher standard deviation implies higher total risk, but it does not guarantee a higher expected return.
91. **Question:** Even a well-diversified portfolio cannot reduce unsystematic risk. **Answer:** F **Feedback:** The sentence is FALSE. A well-diversified portfolio can effectively reduce or eliminate unsystematic risk.