1. **Question**: A value-weighted portfolio is an equal-ownership portfolio. **Answer**: F **Feedback**: The sentence is FALSE. A value-weighted portfolio holds assets in proportion to their market capitalization, not in equal ownership shares.
2. **Question**: We can estimate a project’s cost of capital based on the asset or unlevered cost of capital of comparable firms in the same line of business. **Answer**: T **Feedback**: The sentence is TRUE. Using unlevered betas of comparable firms helps approximate the project's systematic risk.
3. **Question**: Because of default risk, the debt cost of capital, which is its expected return to investors, is less than its yield to maturity, which is its promised return. **Answer**: T **Feedback**: The sentence is TRUE. Yield to maturity does not account for potential defaults, so expected returns are lower.
4. **Question**: Because cash holdings will reduce a firm’s equity beta, when unlevering betas we can use the firm’s net debt, which is debt plus excess cash. **Answer**: F **Feedback**: The sentence is FALSE. Net debt is calculated as debt minus excess cash because cash reduces firm risk.
5. **Question**: The market portfolio is a value-weighted portfolio of all securities traded in the market. According to the CAPM, the market portfolio is efficient. **Answer**: T **Feedback**: The sentence is TRUE. The CAPM assumes that the market portfolio represents an efficient frontier portfolio.
6. **Question**: If we regress a stock’s excess returns against the market’s excess returns, the intercept is the stock’s beta. **Answer**: F **Feedback**: The sentence is FALSE. The intercept represents alpha; beta is the slope of the regression line.
7. **Question**: To implement the CAPM, we must (a) construct the market portfolio and determine its expected excess return over the risk-free interest rate, and (b) estimate the stock’s beta. **Answer**: T **Feedback**: The sentence is TRUE. These are the two key components for applying the CAPM to estimate expected returns.
8. **Question**: Beta corresponds to the slope of the best fitting line in the plot of a security’s excess returns versus the market’s standard deviation. **Answer**: F **Feedback**: The sentence is FALSE. Beta is the slope of a regression of the security’s excess returns on the market’s excess returns, not standard deviation.
9. **Question**: Firm or industry asset betas reflect the market risk of the average project in that firm or industry while individual projects may be more or less sensitive to the overall market. **Answer**: T **Feedback**: The sentence is TRUE. Asset betas measure average systematic risk; individual projects can deviate from this average.
10. **Question**: The weighted average cost of capital (WACC) is the discount rate used in capital budgeting to calculate the present value of cash flows arising from a project. **Answer**: T **Feedback**: The sentence is TRUE. WACC represents the average return required by both debt and equity holders.
11. **Question**: An increase in a project’s systematic risk will lead to an increase in its required rate of return according to the CAPM. **Answer**: T **Feedback**: The sentence is TRUE. Higher systematic risk (beta) increases the required return as per CAPM.
12. **Question**: A firm's beta is independent of its capital structure. **Answer**: F **Feedback**: The sentence is FALSE. Leverage affects the firm's equity beta by increasing the variability of equity returns.
13. **Question**: The cost of debt is the effective rate that a company pays on its borrowed funds, including interest and other fees. **Answer**: T **Feedback**: The sentence is TRUE. The cost of debt includes all financing costs associated with borrowing.
14. **Question**: The cost of debt is always higher than the cost of equity for a company. **Answer**: F **Feedback**: The sentence is FALSE. Debt is generally considered less risky than equity, often leading to a lower required return.
15. **Question**: The cost of debt can be calculated using the yield to maturity (YTM) on the company's existing debt. **Answer**: T **Feedback**: The sentence is TRUE. YTM is a common proxy for estimating the cost of debt.
16. **Question**: The cost of debt is the same for all companies within the same industry regardless of their financial health or creditworthiness. **Answer**: F **Feedback**: The sentence is FALSE. Credit risk varies across companies, affecting their individual cost of debt.
17. **Question**: The cost of equity is the return required by equity investors for their investment in a company. **Answer**: T **Feedback**: The sentence is TRUE. Investors demand compensation for the risk of holding a company’s equity.
18. **Question**: The cost of equity is solely determined by the company's dividend yield and growth rate.  
    **Answer**: F **Feedback**: The sentence is FALSE. The CAPM approach also considers systematic risk via beta.
19. **Question**: The cost of debt can be calculated using the yield to maturity (YTM) of the firm’s outstanding bonds. **Answer**: T **Feedback**: The sentence is TRUE. YTM provides an estimate of the firm's current borrowing cost.
20. **Question**: The cost of debt and the interest rate on new loans are always the same. **Answer**: F **Feedback**: The sentence is FALSE. Market conditions and creditworthiness can cause differences between the two.
21. **Question**: When calculating the cost of debt, we must adjust for taxes because interest expenses are tax-deductible. **Answer**: T **Feedback**: The sentence is TRUE. The after-tax cost of debt is relevant for WACC calculations.
22. **Question**: The cost of equity is always lower than the cost of debt because equity holders have a residual claim on assets. **Answer**: F **Feedback**: The sentence is FALSE. Equity is riskier than debt, which often results in a higher required return.
23. **Question**: The Capital Asset Pricing Model (CAPM) is a common method used to estimate the cost of equity. **Answer**: T **Feedback**: The sentence is TRUE. CAPM is widely used in practice to determine expected equity returns.
24. **Question**: The risk-free rate in the CAPM is usually the expected return of the stock market. **Answer**: F **Feedback**: The sentence is FALSE. The risk-free rate typically refers to government bond yields, not market returns.
25. **Question**: Beta measures the systematic risk of a stock relative to the overall market. **Answer**: T **Feedback**: The sentence is TRUE. Beta indicates the stock's sensitivity to market movements.
26. **Question**: The equity risk premium (ERP) is the additional return investors require for holding risky stocks over risk-free securities. **Answer**: T **Feedback**: The sentence is TRUE. ERP compensates investors for the extra risk of equities.
27. **Question**: A company's historical return on equity (ROE) is the best estimate of its cost of equity. **Answer**: F **Feedback**: The sentence is FALSE. Cost of equity depends on future expectations and risk, not past performance.
28. **Question**: The weighted average cost of capital (WACC) incorporates both the cost of debt and the cost of equity. **Answer**: T **Feedback**: The sentence is TRUE. WACC is a weighted average of all financing sources.
29. **Question**: If a company has no debt, its WACC is equal to its cost of debt. **Answer**: F **Feedback**: The sentence is FALSE. With no debt, WACC equals the cost of equity.
30. **Question**: The cost of debt should reflect the current market rate at which the company can issue new debt. **Answer**: T **Feedback**: The sentence is TRUE. The marginal cost of new debt is relevant for capital budgeting.
31. **Question**: Companies should always use book values instead of market values when calculating WACC. **Answer**: F **Feedback**: The sentence is FALSE. Market values provide a more accurate reflection of investor expectations.
32. **Question**: The yield to maturity (YTM) of a bond represents the annualized return an investor will earn if they hold the bond until maturity. **Answer**: T **Feedback**: The sentence is TRUE. YTM includes coupon payments and capital gains/losses over the bond's life.
33. **Question**: If the risk-free rate increases, the cost of equity calculated using the CAPM will also increase. **Answer**: T **Feedback**: The sentence is TRUE. The risk-free rate is a component of the CAPM.
34. **Question**: A decrease in a firm’s beta will generally lower its cost of equity according to the CAPM. **Answer**: T **Feedback**: The sentence is TRUE. A lower beta reduces the firm's exposure to market risk.
35. **Question**: Companies with a high beta have a lower cost of equity under the CAPM model. **Answer**: F **Feedback**: The sentence is FALSE. Higher beta increases the required return due to greater systematic risk.
36. **Question**: The cost of debt is not affected by changes in market interest rates. **Answer**: F **Feedback**: The sentence is FALSE. Changes in interest rates influence borrowing costs directly.
37. **Question**: The risk-free rate used in the CAPM is often based on long-term government bond yields. **Answer**: T **Feedback**: The sentence is TRUE. Government securities are standard proxies for the risk-free rate.
38. **Question**: The weighted average cost of capital (WACC) reflects the required return on the firm’s total capital. **Answer**: T **Feedback**: The sentence is TRUE. WACC represents the blended cost of debt and equity financing.
39. **Question**: WACC can be used as the discount rate for evaluating new investment projects if the project has similar risk to the firm’s overall business. **Answer**: T **Feedback**: The sentence is TRUE. WACC is applicable when project risk aligns with firm risk.
40. **Question**: A company’s cost of capital is independent of market conditions. **Answer**: F **Feedback**: The sentence is FALSE. Market risk premiums and interest rates influence the cost of capital.
41. **Question**: For firms with no publicly traded stock, the cost of equity can be estimated using industry betas and comparable firms. **Answer**: T **Feedback**: The sentence is TRUE. This method is standard for private firms.
42. **Question**: Asset beta measures the systematic risk of a firm’s assets and is independent of the firm’s capital structure. **Answer**: T **Feedback**: The sentence is TRUE. Asset beta reflects only business risk.
43. **Question**: Debt beta is always zero because debt holders do not bear systematic risk. **Answer**: F **Feedback**: The sentence is FALSE. Debt beta can be positive if default risk is correlated with market movements.
44. **Question**: A firm’s equity beta is generally higher than its asset beta due to financial leverage. **Answer**: T **Feedback**: The sentence is TRUE. Leverage amplifies equity risk.
45. **Question**: The asset beta of a leveraged firm is higher than the asset beta of an identical unleveraged firm. **Answer**: F **Feedback**: The sentence is FALSE. Asset beta reflects business risk and remains unaffected by leverage.
46. **Question**: A firm’s cost of equity increases if its beta increases, assuming the market risk premium remains constant. **Answer**: T **Feedback**: The sentence is TRUE. Higher beta raises the firm’s sensitivity to market movements, increasing the required return.
47. **Question**: The equity risk premium is defined as the expected return on the market portfolio minus the risk-free rate. **Answer**: T **Feedback**: The sentence is TRUE. It represents the additional return investors demand for taking on market risk.
48. **Question**: An increase in a firm’s operating leverage decreases the firm's equity beta. **Answer**: F **Feedback**: The sentence is FALSE. Higher operating leverage increases the firm’s exposure to systematic risk, raising beta.
49. **Question**: Debt financing increases a firm’s equity beta because equity holders bear the remaining risk after debt obligations. **Answer**: T **Feedback**: The sentence is TRUE. Leverage magnifies the variability of returns to equity holders.
50. **Question**: A passive portfolio strategy involves frequent buying and selling of assets to outperform the market. **Answer**: F **Feedback**: The sentence is FALSE. Passive strategies typically replicate index returns with minimal trading.
51. **Question**: The market portfolio used in CAPM includes only publicly traded equity securities. **Answer**: F **Feedback**: The sentence is FALSE. The theoretical market portfolio includes all risky assets, including bonds and real assets.
52. **Question**: Increasing debt in a firm’s capital structure increases the firm’s WACC. **Answer**: F **Feedback**: The sentence is FALSE. Up to a point, debt can reduce WACC due to the tax shield, though excessive debt increases financial risk.
53. **Question**: A firm's unlevered beta is always lower than its levered equity beta. **Answer**: T **Feedback**: The sentence is TRUE. Leverage adds financial risk, increasing the equity beta.
54. **Question**: The dividend discount model (DDM) can be used to estimate the cost of equity for dividend-paying firms. **Answer**: T **Feedback**: The sentence is TRUE. DDM is based on dividend yields and expected growth rates.
55. **Question**: The CAPM assumes that investors are only compensated for diversifiable (idiosyncratic) risk. **Answer**: F **Feedback**: The sentence is FALSE. CAPM assumes investors are compensated only for systematic (market) risk.
56. **Question**: Asset betas can be estimated by de-levering the equity beta of comparable firms. **Answer**: T **Feedback**: The sentence is TRUE. Unlevering removes the effects of financial leverage, isolating business risk.
57. **Question**: The expected return of a bondholder is always equal to the bond's coupon rate. **Answer**: F **Feedback**: The sentence is FALSE. Expected return depends on market price, yield to maturity, and default risk.
58. **Question**: In CAPM, the intercept of the Security Market Line is the risk-free rate. **Answer**: T **Feedback**: The sentence is TRUE. The SML starts at the risk-free rate on the Y-axis.
59. **Question**: The beta of a portfolio is simply the average of the individual betas of the assets in it. **Answer**: F **Feedback**: The sentence is FALSE. The portfolio beta is the weighted average, using portfolio weights.
60. **Question**: A decrease in the equity risk premium will reduce a firm’s cost of equity under CAPM. **Answer**: T **Feedback**: The sentence is TRUE. Lower ERP reduces the risk premium component in the CAPM formula.
61. **Question**: Debt holders always require a higher expected return than equity holders. **Answer**: F **Feedback**: The sentence is FALSE. Debt is less risky than equity, so it typically has a lower required return.
62. **Question**: A firm’s WACC is unaffected by changes in its capital structure. **Answer**: F **Feedback**: The sentence is FALSE. Changing the mix of debt and equity alters the WACC due to differing costs of capital.
63. **Question**: The CAPM assumes that all investors have homogeneous expectations regarding asset returns. **Answer**: T **Feedback**: The sentence is TRUE. One of the CAPM’s assumptions is that investors share the same information and expectations.
64. **Question**: When estimating the cost of capital, using market values for debt and equity is preferred over book values. **Answer**: T **Feedback**: The sentence is TRUE. Market values reflect current investor assessments and are more relevant for valuation.
65. **Question**: Firm-specific risk affects the required return according to the CAPM. **Answer**: F **Feedback**: The sentence is FALSE. CAPM assumes that firm-specific (idiosyncratic) risk can be diversified away.
66. **Question**: A firm's asset beta will be higher if it operates in a cyclical industry. **Answer**: T **Feedback**: The sentence is TRUE. Firms in cyclical industries are more sensitive to economic conditions, raising asset beta.
67. **Question**: Debt holders are not exposed to systematic risk. **Answer**: F **Feedback**: The sentence is FALSE. Debt beta can be positive if default risk correlates with market downturns.
68. **Question**: According to CAPM, an asset with a beta of zero should have an expected return equal to the risk-free rate. **Answer**: T **Feedback**: The sentence is TRUE. A beta of zero implies no exposure to market risk.
69. **Question**: Financial leverage increases a firm’s business risk. **Answer**: F **Feedback**: The sentence is FALSE. Leverage increases equity risk, not the underlying business risk.
70. **Question**: A firm’s WACC represents the average rate of return required by all its investors, weighted by capital structure. **Answer**: T **Feedback**: The sentence is TRUE. WACC combines the costs of debt and equity based on their proportions.
71. **Question**: CAPM can be used to determine whether a security is under or overvalued relative to its risk. **Answer**: T **Feedback**: The sentence is TRUE. Comparing actual returns to the SML helps assess mispricing.
72. **Question**: Market imperfections such as taxes and transaction costs are fully accounted for in the CAPM. **Answer**: F **Feedback**: The sentence is FALSE. CAPM assumes perfect markets without frictions like taxes or transaction costs.
73. **Question**: A firm’s asset beta is not influenced by its operating leverage. **Answer**: F **Feedback**: The sentence is FALSE. Higher operating leverage increases asset beta.
74. **Question**: When estimating the cost of equity for private firms, it is acceptable to use betas of similar public firms. **Answer**: T **Feedback**: The sentence is TRUE. Industry comparables provide a basis for estimating private firm betas.
75. **Question**: Debt increases a firm's overall risk profile because it introduces default risk. **Answer**: T **Feedback**: The sentence is TRUE. Debt adds financial risk, including the possibility of default.
76. **Question**: The cost of equity is unaffected by changes in the market risk premium. **Answer**: F **Feedback**: The sentence is FALSE. A higher market risk premium increases the cost of equity under CAPM.
77. **Question**: A value-weighted index places more weight on larger firms in its calculation. **Answer**: T **Feedback**: The sentence is TRUE. Larger firms contribute more to index movements in a value-weighted portfolio.
78. **Question**: Investors require compensation for idiosyncratic risk according to the CAPM. **Answer**: F **Feedback**: The sentence is FALSE. CAPM assumes idiosyncratic risk is diversified away and not priced.
79. **Question**: Financial leverage magnifies the returns and losses to equity holders. **Answer**: T **Feedback**: The sentence is TRUE. Leverage increases the variability of equity returns.
80. **Question**: The CAPM assumes that investors can borrow and lend at the risk-free rate. **Answer**: T **Feedback**: The sentence is TRUE. This is a simplifying assumption of the CAPM.
81. **Question**: The beta of a debt instrument is always zero. **Answer**: F **Feedback**: The sentence is FALSE. Debt beta can be positive when credit risk correlates with market risk.
82. **Question**: The SML represents the relationship between expected return and standard deviation. **Answer**: F **Feedback**: The sentence is FALSE. The SML plots expected return against beta, not standard deviation.
83. **Question**: A firm’s WACC is the appropriate discount rate for all projects, regardless of their individual risk profiles. **Answer**: F **Feedback**: The sentence is FALSE. Projects with differing risks require adjusted discount rates.
84. **Question**: All-equity financed firms have the same asset and equity betas. **Answer**: T **Feedback**: The sentence is TRUE. Without debt, equity beta equals asset beta.
85. **Question**: Operating leverage affects a firm’s fixed cost structure but has no impact on risk.  
    **Answer**: F **Feedback**: The sentence is FALSE. Higher operating leverage increases sensitivity to sales fluctuations, increasing risk.
86. **Question**: A firm’s enterprise value includes cash holdings. **Answer**: F **Feedback**: The sentence is FALSE. Enterprise value subtracts cash from firm value because cash is a non-operating asset.
87. **Question**: If a firm's asset beta increases, its equity beta will also increase, assuming constant leverage. **Answer**: T **Feedback**: The sentence is TRUE. Asset beta is a determinant of equity beta.
88. **Question**: CAPM assumes that investors hold only one security in their portfolios. **Answer**: F **Feedback**: The sentence is FALSE. CAPM assumes investors hold the market portfolio, which is fully diversified.
89. **Question**: The expected return of a security lying below the SML is higher than its fair return. **Answer**: F **Feedback**: The sentence is FALSE. Securities below the SML are considered overvalued, offering lower than fair returns.
90. **Question**: A firm’s cost of capital should reflect the time value of money and the risk associated with its cash flows. **Answer**: T **Feedback**: The sentence is TRUE. These are fundamental principles of valuation.
91. **Question**: Market proxies such as the S&P 500 or Bovespa Index are exact representations of the theoretical market portfolio. **Answer**: F **Feedback**: The sentence is FALSE. They are approximations; the theoretical market portfolio includes all risky assets.
92. **Question**: The WACC will decline indefinitely as a firm increases its debt ratio. **Answer**: F **Feedback**: The sentence is FALSE. Excessive debt raises financial distress costs, eventually increasing WACC.
93. **Question**: A firm’s cost of equity is unaffected by changes in its debt-equity ratio. **Answer**: F **Feedback**: The sentence is FALSE. Increasing debt raises equity risk, increasing the cost of equity.
94. **Question**: The Capital Asset Pricing Model assumes that markets are in equilibrium, with no arbitrage opportunities. **Answer**: T **Feedback**: The sentence is TRUE. CAPM is based on the assumption of market efficiency and equilibrium.
95. **Question**: Leveraged firms typically have a higher WACC than unleveraged firms. **Answer**: F **Feedback**: The sentence is FALSE. Moderate leverage can lower WACC due to the tax shield on interest payments, though excessive leverage increases WACC.
96. **Question**: CAPM assumes that investors can diversify away all market (systematic) risk by holding a well-diversified portfolio. **Answer**: F **Feedback**: The sentence is FALSE. Market risk is non-diversifiable; CAPM assumes only idiosyncratic risk can be eliminated through diversification.
97. **Question**: A firm’s WACC should be used as the discount rate for projects with risk profiles similar to the firm’s existing operations. **Answer**: T **Feedback**: The sentence is TRUE. WACC is appropriate when project risk aligns with the firm’s average risk.
98. **Question**: Firms with higher operating leverage will generally have higher asset betas, assuming all else equal. **Answer**: T **Feedback**: The sentence is TRUE. High fixed costs make profits more sensitive to revenue fluctuations, increasing systematic risk.
99. **Question**: A firm’s equity beta decreases as it replaces equity with debt in its capital structure. **Answer**: F **Feedback**: The sentence is FALSE. Increasing leverage amplifies the risk to equity holders, raising equity beta.
100. **Question**: According to CAPM, a security with a negative beta is expected to have a return lower than the risk-free rate. **Answer**: T **Feedback**: The sentence is TRUE. A negative beta indicates that the security moves inversely with the market, resulting in a lower expected return than the risk-free rate as compensation.