FM Graded Quiz M2

Question 1

What is the primary difference between the coefficient of variation and the Sharpe ratio?

○ The coefficient of variation uses standard deviation while the Sharpe ratio uses variance

⦿ The Sharpe ratio uses excess return over standard deviation

○ The Sharpe ratio is only applicable to stocks while the coefficient of variation can be used for any asset

○ The coefficient of variation is always larger than the Sharpe ratio

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QUESTIONS

1 2 3 4 5
6 7 8 9 10
11 12 13 14 15
16

Question 2

If Stock X has a return of 15% and a standard deviation of 20% and Stock Y has a return of 12% and a standard deviation of 15% which stock has the higher Sharpe ratio assuming a risk-free rate of 3%?

○ Stock Y

○ Stock X

⦿ Both have the same Sharpe ratio

○ Not enough information to determine

Question 3

ABC stock just paid dividend of $2 per share. The current dividend growth rate is 10%. It is expected that the dividend growth rate will gradually decline to 3% in 10 years. The cost of equity is 9%. What is the fair value of ABC stock?

○ $50.12

⦿ $52.89

○ $38.67

○ $46.00

Question 4

According to "There's More Than Meets the Eye: Looking at Art as an Alternative Investment", which of the following characteristics does the study attribute to art as an investment?

○ Low risk and high return

⦿ High risk and high return

○ Low risk and low return

○ High risk and low return

Question 5

A company performs a 3-for-1 stock split. If it had 5 million shares outstanding before the split what will be the new number of shares?

○ 8 million shares

○ 1.67 million shares

○ 10 million shares

⦿ 15 million shares

Question 6

What role do oracles play in blockchain technology?

○ They create smart contracts

○ They validate transactions within the blockchain

● They bridge the blockchain with external data

○ They mine new cryptocurrencies

Question 7

What is the primary advantage of using a normal distribution to model financial returns?

○ It accounts for all possible extreme events in the market

○ It eliminates the need for risk management in portfolios

○ It always accurately represents the true distribution of returns

● It allows for simple representation of data using only mean and standard deviation

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Question 8

If a stock's daily returns have a mean of 0.1% and a standard deviation of 2%, what is the 95% confidence interval for the daily return assuming a normal distribution?

○ (-5%, 5.2%)

● (-3.82%, 4.02%)

○ (-2.5%, 2.7%)

○ (-4.5%, 5.5%)

Question 9

What is the primary reason for using returns instead of prices when calculating volatility?

○ Returns are easier to calculate

○ Returns are always normally distributed

● Returns are comparable across different assets

○ Returns are required by general accepted account principles

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Question 10

Calculate the logarithmic return for a stock that increased from $37 to $43.

○ 18.63%

○ 10.63%

○ 5.49%

● 15.02%

Question 11

Which answer best points out the mistake in the following statement? "The top stock analyst from Spring Bank claims MNL stock is undervalued based on GGM multistage model. The analyst assumes MNL dividend growth rate will continue to stay at 10% infinitely and it's cost of equity will always stay at 8%"

○ Dividend growth rate should fluctuate all the time

● The dividend growth rate cannot be larger than cost of equity indifinitely

○ MNL stock should be overvalued based on GGM multistage model

○ Cost of equity should decline linearly as time goes by

Question 12

How does Bitcoin differ from traditional stocks in terms of valuation?

○ Bitcoin is backed by physical assets

○ Bitcoin has guaranteed dividend payments

○ Bitcoin is always less volatile than stocks

◉ Bitcoin lacks intrinsic value based on company ownership

Question 13

A stock pays an annual dividend of $2 per share and is currently priced at $40. What is its dividend yield?

○ 20%

◉ 5%

○ 2%

○ 10%

Question 14

What is the primary advantage of cryptocurrencies trading 24/7?

○ Reduced market volatility

◉ Ability to react immediately to news

○ Lower transaction costs

○ Higher liquidity

Question 15

The 4 graphs show Amazon's stock price movements and return distributions in 2019 and 2020 respectively. Which of the statements below is not correct?

○ Excess kurtosis in return distribution in 2019 is greater than 0

○ When Amazon stock price was more volatile during 2020, its return distribution had fatter tails and a lower peak

○ Return distributions for both periods are slightly skewed to the right, making Amazon stock have higher probabilities to make major gains than major losses.

◉ Return distributions for both periods are not normally distributed

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Question 16

If a stock's daily returns have a mean of 3.75% and a standard deviation of 2.0% and follow a normal distribution, what is the probability of observing a daily return greater than 6.0%?

○ 1%

○ 5%

○ 2.5%

○ 13%

SUBMIT