

25/01 560 FINANCIAL MARKETS



Course Overview ▾

M1: Credit Risk and Financing ▾

M2: Return and Volatility ▴

 FM Forum M2

LESSON 1: INTRODUCING STOCKS AND CRYPTOCURRENCIES

✓ Required Readings

✓ Lesson Notes

LESSON 2: TYPES OF STOCKS AND CRYPTOCURRENCIES

✓ Required Readings

✓ Lesson Notes

LESSON 3: MEASURING THE PERFORMANCE OF STOCKS AND CRYPTOCURRENCIES

✓ Lesson Notes

LESSON 4: MODELING THE PERFORMANCE OF STOCKS AND CRYPTOCURRENCIES

✓ Lesson Notes

MODULE 2 SUMMARY

✓ Return and Volatility Screencast

ASSESSMENTS

☐ FM Collaborative Review Task 1

☐ FM Practice Quiz M2

☐ FM Graded Quiz M2

M3: Correlation ▾

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FM Practice Quiz M2

Question 1

What is the main advantage of using logarithmic returns over arithmetic returns?

- ☐ They are always positive
- ☒ They are additive over time
- ☐ They provide higher returns
- ☐ They are easier to calculate



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QUESTIONS



Question 2

Which of the following is NOT a characteristic of a blockchain?

- ☐ Transactions are irreversible once validated
- ☐ All participants have a copy of the same ledger
- ☐ Transactions are encrypted
- ☒ Transactions are centrally controlled and authorized

Question 3

A company has 10 million shares outstanding and its current share price is \$25. What is its market capitalization?

- ☐ \$100 million
- ☐ \$2.5 billion
- ☐ \$400 million
- ☒ \$250 million

Question 4

According to "Money And Debt: The Public Role of Banks", what percentage of the current broad monetary aggregate (M3) consists of cash?

- ☐ 25%
- ☐ 15%
- ☒ 3%
- ☐ 7%

Question 5

Which distribution is characterized by a single parameter called 'degrees of freedom' and can exhibit excess kurtosis?

- ☐ Normal distribution
- ☒ Student's t-distribution
- ☐ F distribution
- ☐ Log-normal distribution

Question 6

Calculate the arithmetic return if a stock was bought for 100 and sold for 120.

- ☒ 20%
- ☐ 25%
- ☐ 15%

☐ 0.2

Question 7

Calculate the excess kurtosis of a mixture of two normal distributions: 80% with mean 0 and standard deviation 1, and 20% with mean 0 and standard deviation 4.

- ☒ Approximately 7
- ☐ Approximately 3
- ☐ Approximately 10
- ☐ Approximately 0

Question 8

Assume the stock market is very efficient and no opportunity for stock value arbitrage trading, calculate the expected dividend (D1) using the Gordon Growth Model if the current stock price is \$60 the required return is 10% and the growth rate is 5%.

- ☐ \$2.50
- ☐ \$3.50
- ☒ \$3.00
- ☐ \$4.00

Question 9

Which of the following is true about logarithmic returns?

- ☐ They cannot be used with negative price changes
- ☐ They are only applicable for annual returns
- ☒ They are approximately equal to arithmetic returns for small changes
- ☐ They are always larger than arithmetic returns

Question 10

What is the primary difference between a centralized and decentralized blockchain network?

- ☐ Centralized networks are faster and more efficient
- ☐ Centralized networks use proof-of-stake consensus
- ☐ Decentralized networks are always more secure
- ☒ Decentralized networks have no single point of control

Question 11

Which of the following is NOT a category of stock based on market capitalization?

- ☐ Small-cap
- ☒ Mega-cap
- ☐ Mid-cap
- ☐ Large-cap

Question 12

Which of the following best describes the relationship between stock prices and returns?

- ☒ If stock prices are log-normally distributed, returns are normally distributed
- ☐ If stock prices are normally distributed, returns are log-normally distributed
- ☐ Stock prices and returns always follow the same distribution

- ☐ There is no consistent relationship between stock price and return distributions

Question 13

Which of the following best describes the relationship between variance and standard deviation?

- ☐ Variance is the square root of standard deviation
- ☐ Variance and standard deviation are interchangeable terms
- ☒ Variance is the square of standard deviation
- ☐ Variance is always larger than standard deviation

Question 14

How would a company's decision to retain earnings instead of paying dividends likely affect its stock price in the short term?

- ☐ The stock price would remain unchanged
- ☒ The stock price might decrease
- ☐ The stock price would definitely increase
- ☐ The stock would be delisted from the exchange

Question 15

What is the primary characteristic of growth stocks?

- ☒ They reinvest earnings to grow the company rather than pay dividends
- ☐ They always have a high dividend yield
- ☐ They are guaranteed to outperform the market
- ☐ They are only found in mature industries

Question 16

What is the primary reason stock prices cannot be normally distributed?

- ☐ Stock prices always follow a log-normal distribution
- ☐ The Central Limit Theorem doesn't apply to stock prices
- ☒ Stock prices cannot become negative
- ☐ Stock prices are always positively skewed

Question 17

What is the main advantage of using standard deviation over price range as a measure of volatility?

- ☒ It takes into account all data points not just extremes
- ☐ It's required by financial regulators
- ☐ It's always larger than price range
- ☐ It's easier to calculate

Question 18

What is the main conceptual difference between a bond buyer and a stock buyer?

- ☒ The bond buyer provides a loan while the stock buyer gets direct ownership
- ☐ Neither provides a loan; both get direct ownership
- ☐ The bond buyer provides a loan with no repayment date while the stock buyer gets direct ownership
- ☐ Both provide loans with fixed repayment dates

Question 19

What is the primary reason for a company to transition from being a growth stock to an income stock?

- ☐ It's a legal requirement for all companies after a certain number of years
- ☒ The company has reached a mature stage where it can consistently generate profits and pay dividends
- ☐ To reduce the company's tax burden
- ☐ The company is experiencing financial difficulties and needs to attract more investors

Question 20

How does the presence of skewness in financial returns challenge the assumption of normality?

- ☐ It has no impact on the normality assumption
- ☐ It only affects the standard deviation of the distribution
- ☐ It only affects the mean of the distribution
- ☒ It indicates an asymmetric distribution, violating the symmetry property of normal distributions

SUBMIT

