edX   **MITx:** 15.053x Optimization Methods in Business Analytics

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Lecture
Lecture questions due Oct 18,
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Recitation

Problem Set 6
Homework 6 due Oct 18, 2016 at
19:30 IST   ✎

Portfolio Optimization Introduction Exercise

(1/1 point)
One of the objectives in portfolio optimization is to minimize risk. Which of the following is true?

○ A common measure of risk in portfolio optimization is the standard deviation of the portfolio.

○ Recall that for Raytheon, the expected five year return was 50% and the standard deviation was 10%. According to the video, there is an approximately 2/3 chance that the 5-year return will be between 40% and 60%.

○ The video says that sometimes the standard deviation does not correspond to what a decision maker thinks of as risk.

◉ All of the above ✔

SOLUTION

All of the above

- A common measure of risk in portfolio optimization is the standard deviation of the portfolio.

- Recall that for Raytheon, the expected five year return was 50% and the standard deviation was 10%. According to the video, there is an approximately 2/3 chance that the 5-year return will be between 40% and 60%.

- The video says that sometimes the standard deviation does not correspond to what a decision maker thinks of as risk.

You have used 1 of 2 submissions