Question 1

Stock X has a beta of 0.5. Mark expects the market to drop by 10% over the next year. Which of these propositions is true?

1) Stock X's price is also expected to drop next year, by more than the market.
2) Stock X's price is also expected to increase next year.
3) Stock X's price is also expected to drop next year, by less than the market.

Correction: 3

Question 2

Company ABC decides to increase its level of debt. Which one of these propositions is true?

1) This will affect the beta of its assets.

2) This will affect the beta of its equity.

Correction: 2

Question 3

Stock Y has a beta of 0.8. Stephanie believes that it has an alpha of 2%. The risk-free rate is of 3% and the market risk premium of 5%. What is the expected return on Y in Stephanie's view?

1) 5%
2) 7%
3) 9%
4) 11%

Correction: The CAPM expected return is $r_f + \beta\left(E\left[R_M - r_f\right]\right) = 7\%$. Stephanie believes that it is going to overperform by 2% so the expected return in her view is 9%.