Lesson #4 Quiz
Graded Quiz • 30 min

Due Oct 12, 2:59 AM EDT

Congratulations! You passed!

TO PASS 80% or higher

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Finance 268

Lesson #4 Quiz

LATEST SUBMISSION GRADE
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1. Under the "Don't put all your eggs in one basket" analogy, the eggs represent individual investments and the basket represents the overall investment portfolio. Spreading your "eggs" around allows you to: **1 / 1 point**

- ( ) Increase the uncertainty of your overall portfolio so you can try to generate an extra return.
- (•) Minimize the possibility that bad luck for a single investment adversely affects your overall portfolio.
- ( ) Maximize the possibility that good luck for a single investment positively affects your overall portfolio.
- ( ) Maximize the return of your overall portfolio.

✓ **Correct**
This is the principle of risk diversification. By spreading the "eggs", you allow for an under-performing investment to be balanced by another and outperforming one.

2. Risk diversification can be better achieved: (check all that apply) **1 / 1 point**

- [x] By including in your portfolio all classes of assets traded in the market, independently of their risks.

✓ **Correct**
Including all asset classes allows you to "average out" the extent of all potential sources of risk.

- [ ] With only stocks in your portfolio.
- [ ] With only low risk assets in your portfolio.
- [x] With mutual funds or unit investment trusts if you hold a small number of assets.

✓ **Correct**
Diversification for individual assets is harder since you would have to buy fraction of other assets, which could be impossible or prohibitively expensive.

3. Short selling, which is defined as the sale of a security that the seller has borrowed, is motivated by the belief that: **1 / 1 point**

- (•) The price of the security will decline.
- ( ) The price of the security will stay the same.
- ( ) Short selling is never prompted by speculation.
- ( ) The price of the security will rise.

✓ **Correct**
Buying back the security at a lower price will allow you to make a profit.

4. The expected return of a portfolio is computed as __________ and the standard deviation of a portfolio is __________. **1 / 1 point**

- (•) the weighted average of the expected returns of each asset in the portfolio, weighted by the investment in each asset

  NOT the weighted average of the standard deviations of each individual asset
- ( ) the simple average of the expected returns of each asset in the portfolio

  NOT the weighted average of the standard deviations of each individual asset
- ( ) the simple average of the expected returns of each asset in the portfolio

  the weighted average of the standard deviations of each individual asset
- ( ) the weighted average of the expected returns of each asset in the portfolio, weighted by the investment in each asset

  the weighted average of the standard deviations of each individual asset

Correct

5. An efficient portfolio is a combination of assets which: 1 / 1 point

- ( ) Offers a risk free rate of return by minimizing the risk of the portfolio.
- ( ) Minimizes risk by ensuring only diversifiable risk remains.
- (•) Achieves the highest return for a given risk.
- ( ) Achieves the highest possible covariance among its assets.

Correct