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Finance 268

Lesson #2 Quiz

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1. A stress test: (check all that apply)

1 / 1 point

- [x] Tries to incorporate all the interconnections between financial institutions.

  Correct

- [x] Tries to incorporate all potential economic and financial crises, such as recessions, appreciation and depreciation of currency, liquidity crisis, etc.

  Correct

- [x] Does not look at historical returns, and looks at all the details of the portfolios and their vulnerabilities during all sorts of potential financial crises.

  Correct

- [ ] Aims to test the behavior of historical returns and their fluctuations during all sorts of potential financial crises.

2. A 5% 3-month Value At Risk (VaR) of $1 million represents:

1 / 1 point

- ( ) The likelihood of a 5% of $1 million decline in the asset over the next 3-month.
- (•) A 5% chance of the asset declining in value by $1 million during the 3-month time frame.
- ( ) A 5% chance of the asset increasing in value by $1 million during the 3-month time frame.
- ( ) A 5% decline in the value of the asset after 3 month, per each $1 million of notional.

  Correct

3. In the Capital Asset Pricing Model (CAPM), a measure of systematic risk is captured by:

1 / 1 point

- ( ) The standard deviation of returns.
- ( ) The variance of returns.
- (•) The Beta.
- ( ) The Alpha.

  Correct

4. Market (or systematic) risk __________ whereas idiosyncratic risk __________.

1 / 1 point

- ( ) Is the risk for an asset to experience losses due factors that solely affect the industry associated with the asset

  Is the risk which is endemic to a specific asset and therefore not the market as a whole
- (•) Is the risk for an asset to experience losses due to factors that affect the entire stock market

  Is the risk which is endemic to a specific asset and therefore not the market as a whole
- ( ) Is the risk for an asset to experience losses due to factors that affect the entire stock market

  Is the risk which is endemic to the industry of the asset and therefore not the market as a whole
- ( ) Is the risk for an asset to not be able to be traded in the market at a later time

  Is the risk for an asset to experience losses due to factors that affect the entire stock market

  Correct

5. Why might an investor not normally invest large sums of money into Walmart or Apple stock?

1 / 1 point

- ( ) The stock prices are very stable, making it difficult to gain large sums of money
- (•) Their stock prices are highly volatile, and thus carry a lot of risk
- ( ) Both companies have received extensive media coverage
- ( ) Their stock prices closely track the S&P500

✓ **Correct**

6. Why is the normal distribution not a good model of some financial data?

1 / 1 point

- ( ) Extreme events occur in it too often
- (•) It does not have many outliers
- ( ) The standard deviation is too high
- ( ) The standard deviation is too low

✓ **Correct**

Most values drawn from a normal distribution are within a few standard deviations of the mean. This is not the case in the S&P500 data, for example.