Wel Dlp Portfolio And Risk Management

1. In case of perfect diversification, the systematic risk is nil.

- ○ (a) True
- ⦿ (b) False

2. The objectives of investors while putting money in various avenues are:-

- ○ (a) Safety
- ○ (b) Capital appreciation
- ○ (c) Income
- ⦿ (d) All of the above

3. Characteristics of individual investors vary in terms of their:-

- ○ (a) a) Risk tolerance
- ○ (b) b) Asset preference
- ○ (c) c) Risk appetite
- ⦿ (d) Both (a) and (b)

4.

Jensen's Alpha and Beta coefficient for four stocks are given below. Rank them as per Jensen's Performance measure. (3Marks)

Stocks	Alpha	Beta
M	1.0	0.9
N	1.25	1.25
O	1.07	1.15
P	1.15	0.85

5. When beta is zero, stock price is unrelated to the market index.

- ⦿ (a) True
- ○ (b) False

6. A wise investor plans his portfolio on the basis of his:-

- ○ (a) a) Risk return profile
- ○ (b) b) Preferences
- ○ (c) c) Having money in the bank
- ⦿ (d) Both (a) and (b)

7. When an investor desires to have a real rate of return, which is substantially higher that the inflation rate, then he has to invest in:-

- ◉ (a) Shares
- ○ (b) Post office deposits
- ○ (c) Government securities
- ○ (d) Public sector bank

8. Due to psychological reasons, an average investor puts all his savings in one form only.

- ○ (a) True
- ◉ (b) False

9. When market efficiency is in the semi-strong form, stock prices adjust rapidly to:-

- ○ (a) a) Market data
- ○ (b) b) Non-market data
- ○ (c) c) Changes in the prices of securities
- ◉ (d) Both (a) and (b)

10. Risks in a portfolio of assets are the total of individual risk of investments made by an investor.

- ◉ (a) True
- ○ (b) False

11.

Based on data given below, calculate the expected return. (3Marks)

Outcome	Expected return	Probability
1	6	0.3
2	10	0.5
3	12	0.2

- ○ (a) 10.7
- ○ (b) 9.6
- ○ (c) 9.8
- ◉ (d) 9.2

12. Calculate the expected rate of return of a security, which has market expected return of 12%, risk free return of 5% and Beta of 1.2. (3Marks)

- ○ (a) 13.2
- ○ (b) 13.6
- ○ (c) 13.5
- ◉ (d) 13.4

13. The variability of the return is a measure of risk.

- ⦿ (a) True
- ○ (b) False

14. India forge has a Beta of 1.45, the risk free rate is 10% and the expected return on market portfolio is 16%. The company has paid a dividend of Rs. 2/- per share and the expected growth in dividends is 10% per annum. Calculate the stock required rate of return according to CAPM. (3Marks)

- ⦿ (a) 18. 7%
- ○ (b) 19.75%
- ○ (c) 18.5%
- ○ (d) 18.75%

15. Incomes in cash or bank deposits are safe and have little risk.

- ○ (a) True
- ⦿ (b) False

16. A negative co-variance means that the companies are dependent upon the same economic variables.

- ○ (a) True
- ⦿ (b) False

17. The examples of systematic risk are:-

- ○ (a) Inflation
- ○ (b) Changes in economic conditions
- ○ (c) Interest rate changes
- ⦿ (d) All of the above

18. Efficient portfolios are those with minimum risk for a given:-

- ⦿ (a) Expected return
- ○ (b) Set of assets
- ○ (c) Time period
- ○ (d) All of the above

19. By splitting funds among risk free portfolios and pure factor portfolios, it is possible for an investor to form a portfolio with almost any sensitivity to each other.

- ⦿ (a) True
- ○ (b) False

20. Risk averters generally invest only in:-

- ○ (a) Banks
- ○ (b) Post Offices
- ○ (c) UTI Mutual Funds
- ⊙ (d) All of the above

21. The out come of acquiring assets in an ad-hoc and unplanned manner is:-

- ○ (a) a) High risk
- ○ (b) b) Low return profile
- ⊙ (c) Both (a) and (b)
- ○ (d) Risky portfolio

22. CAPM is based on certain assumptions such as:-

- ⊙ (a) The investor aims at maximizing the utility of his wealth
- ○ (b) The investors make decisions on sentimental basis
- ○ (c) Investors aim at maximizing return
- ○ (d) The investors aim at maximizing wealth

23. The systematic risk is market related and it is possible to reduce or eliminate it by:-

- ○ (a) Diversification
- ○ (b) Investment
- ○ (c) Speculation
- ⊙ (d) None of the above

24. When the returns on two assets move together, their covariance is:-

- ⊙ (a) Positive
- ○ (b) Negative
- ○ (c) Mismatched
- ○ (d) Balanced

25. High Betas, based on historical data reflect the price volatility.

- ○ (a) True
- ⊙ (b) False

26. The proportion of investment in equity an d debentures depends on specific objectives of the fund viz:-

- ○ (a) a) Income
- ○ (b) b) Growth
- ○ (c) c) Risk
- ⊙ (d) Both (a) and (b)

27. Based on data given below, calculate return on portfolio:- (3Marks)

Security	Expected return	Percentage of investment
A	20%	40%
B	30%	60%

- ○ (a) 24%
- ○ (b) 28%
- ○ (c) 22%
- ⦿ (d) 26%

28. Changes in security prices or market expectations of the Portfolio Manager may necessitate changes in the asset composition.

- ⦿ (a) True
- ○ (b) False

29. According to the capital pricing model, efficient frontier is defined as a risk - return trade - of curve. It is efficient because:-

- ⦿ (a) It provides the maximum return at a given level of risk of the investor
- ○ (b) It provides maximum profit at a given level of risk of the investor
- ○ (c) It provides the minimum loss at a given level of return to the investor
- ○ (d) It provides the minimum loss at a given level of profit to the investor

30. In the case of Treynor, only unsystematic risk is considered as relevant to performance.

- ○ (a) True
- ⦿ (b) False

31. Treynor Index uses Beta, the measure of systematic risk for calculation of performance of portfolio.

- ⦿ (a) True
- ○ (b) False

32. Risk-return is subject to:-

- ○ (a) Variability
- ⦿ (b) Variation
- ○ (c) Changeability
- ○ (d) Fluctuation

33.

Performance of Three mutual funds over the last 5 years is given below Rank each fund by Treynor's performance criteria. Assume risk free return to be 7%. (3Marks)

Growth fund	Return	Standard deviation	Beta
HDFC	15%	16%	1.15
FRANKLIN	13%	18%	1.25
KOTAK	12%	11%	0.90

- ○ (a) HDFC,, FRANKLIN, KOTAK
- ⊙ (b) HDFC, KOTAK,, FRANKLIN
- ○ (c) KOTAK, FRANKLIN, HDFC
- ○ (d) FRANKLIN, HDFC, KOTAK

34. In assessing the viability of the project and its estimated return to equity holders, the effects of financial gearing are:-

- ○ (a) a) Removed
- ○ (b) b) Ignored
- ○ (c) c) Considered
- ⊙ (d) Both (a) and (b)

35. Risk-return perception of the investor is influenced by following factors:-

- ○ (a) Profit allocation method adopted
- ○ (b) Dividend decision
- ○ (c) Retention ratio
- ⊙ (d) All of the above

36. Beta for the market is taken as:-

- ⊙ (a) One
- ○ (b) More than one
- ○ (c) Less than one
- ○ (d) Depends on the market conditions

37. On the market portfolio, for comparison purpose, __________ risk is used as a standard measure.

- ⊙ (a) Market
- ○ (b) Systematic
- ○ (c) Business
- ○ (d) Internal

38. The company Beta and industry Beta are relatively more stable and dependable parameters for integrating the risk with:-

- ○ (a) Profit
- ○ (b) Revenue
- ⊙ (c) Return
- ○ (d) Loss