Analysis of Investments and Management of Portfolios 1st Edition Reilly Test Bank

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Chapter 1 — The Investment Process

- 1. The rate of exchange between future consumption and current consumption is
 - a. the nominal risk-free rate.
 - b. the coefficient of investment exchange.
 - c. the pure rate of interest.
 - d. the consumption/investment paradigm.
 - e. the expected rate of return.

ANS: c

- 2. The coefficient of variation is a measure of
 - a. central tendency.
 - b. absolute variability.
 - c. absolute dispersion.
 - d. relative variability.
 - e. relative return.

ANS: d

- 3. The nominal risk free rate of interest is a function of
 - a. the real risk free rate and the investment's variance.
 - b. the prime rate and the rate of inflation.
 - c. the T-bill rate plus the inflation rate.
 - d. the tax free rate plus the rate of inflation.
 - e. the real risk free rate and the rate of inflation.
- ANS: e
- 4. In the phrase 'nominal risk free rate', nominal means
 - a. computed.
 - b. historical.
 - c. market.
 - d. average.
 - e. risk adverse.
- ANS: c
- 5. If a significant change is noted in the yield of a T-bill, the change is most likely attributable to
 - a. a downturn in the economy.
 - b. a static economy.
 - c. a change in the expected rate of inflation.
 - d. a change in the real rate of interest.
 - e. a change in risk aversion.

ANS: c

- 6. Which of the following is not a component of the risk premium?
 - a. business risk
 - b. financial risk
 - c. liquidity risk
 - d. exchange rate risk
 - e. unsystematic market risk

ANS: e

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- 7. The variability of operating earnings is associated with
 - a. business risk.
 - b. liquidity risk.
 - c. exchange rate risk.
 - d. financial risk.
 - e. market risk.

ANS: a

- 8. What will happen to the security market line (SML) if the following events occur, other things constant: (1) inflation expectations increase, and (2) investors become more risk averse?
 - a. shift up and keep the same slope
 - b. shift up and have less slope
 - c. shift up and have a steeper slope
 - d. shift down and keep the same slope
 - e. shift down and have less slope

ANS: c

- 9. A decrease in the expected real growth in the economy, all other things constant, will cause the security market line to
 - a. shift up.
 - b. shift down.
 - c. have a steeper slope.
 - d. have a flatter slope.
 - e. remain unchanged.
- ANS: b
- 10. Unsystematic risk refers to risk that is
 - a. undiversifiable.
 - b. diversifiable.
 - c. due to fundamental risk factors.
 - d. due to market risk.
 - e. none of the above

ANS: b

- 11. Two factors that influence the nominal risk-free rate are
 - a. the relative ease or tightness in capital markets and the expected rate of inflation.
 - b. the expected rate of inflation and the set of investment opportunities available in the economy.
 - c. the relative ease or tightness in capital markets and the set of investment opportunities available in the economy.
 - d. time preference for income consumption and the relative ease or tightness in capital markets.
 - e. time preference for income consumption and the set of investment opportunities available in the economy.

ANS: a

- 12. Measures of risk for an investment include
 - a. variance of returns and business risk.
 - b. coefficient of variation of returns and financial risk.
 - c. business risk and financial risk.

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- d. variance of returns and coefficient of variation of returns.
- e. all of the above.

ANS: d

13. Modern portfolio theory assumes that most investors are

- a. risk averse.
- b. risk neutral.
- c. risk seekers.
- d. risk tolerant.
- e. none of the above.

ANS: a

14. Which of the following is not a component of the required rate of return?

- a. expected rate of inflation
- b. time value of money
- c. risk
- d. holding period return
- e. all of the above are components of the required rate of return

ANS: d

15. All of the following are major sources of uncertainty EXCEPT

- a. business risk.
- b. financial risk.
- c. default risk.
- d. country risk.
- e. liquidity risk.

ANS: c

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