

- _____ 1. The Sharpe ratio is measured as the _____ return relative to the _____ of the return.
- risk, trade-off
 - variability, loss
 - expected excess, volatility**
 - risk, average excess
- _____ 2. In the model of individual portfolio choice, which of these best describes the optimal portfolio choice?
- Investors choose among portfolios of risky assets to find the one with the lowest volatility.
 - Investors all choose the same portfolio of risky assets, and choose a mix of that risky portfolio and the riskless asset.**
 - Investors that seek to obtain a higher rate of expected return hold portfolios of risky assets that have higher volatility.
 - Investors choose a portfolio of risky assets whose return is uncorrelated with the market return.
- _____ 3. Let r_i represent the return on some risky asset i that an investor is considering adding to her portfolio. r_p is the return on risky assets in the portfolio, and r_f is the risk-free rate of return. Let ρ be the correlation of r_i with r_p . Which of these conditions is the correct one for determining whether asset i should be added to the portfolio?
- $\frac{Er_i - r_f}{Vol(r_i)} < \frac{Er_p - r_f}{Vol(r_p)}$
 - $\frac{Er_i - r_f}{Vol(r_i)} < \rho \frac{Er_p - r_f}{Vol(r_p)}$
 - $\frac{Er_i - r_f}{Vol(r_i)} > \frac{Er_p - r_f}{Vol(r_p)}$
 - $\frac{Er_i - r_f}{Vol(r_i)} > \rho \frac{Er_p - r_f}{Vol(r_p)}$
- _____ 4. Which of the following will **not** increase the hurdle rate for an asset that an investor is considering adding to her portfolio?
- A higher correlation of the return on the asset with the return on the portfolio.
 - A higher volatility of the return on the asset.
 - A higher volatility of the return on the portfolio.**
 - A higher expected return on the portfolio.

- _____5. According to the capital asset pricing model, an asset tends to have a positive excess return when its return
- has a greater variance than the variance of the return on the market portfolio.
 - has a smaller variance than the variance of the return on the market portfolio.
 - is positively correlated with the return on the market portfolio.**
 - is negatively correlated with the return on the market portfolio.
- _____6. Using the notation from the textbook, which of these is the correct equation for the expected return on asset e , according to the CAPM?
- $E(r_e) = r_f + \beta_e [E(r_m) - r_f]$
 - $E(r_m) = r_f + \beta_e [E(r_e) - r_f]$
 - $E(r_e) = r_f + \rho_e [E(r_m) - r_f]$
 - $E(r_m) = r_f + \rho_e [E(r_e) - r_f]$
- _____7. Which of the following is **not** a necessary input into the recipe for the cost of equity capital using the CAPM formula:
- Data on the market portfolio return, the return on the security, and the T-bill rate.
 - An estimate of the market risk premium.
 - An estimate of the beta for the security.
 - A measure of the Fama-French factors.**
- _____8. According to research findings, which of the following provides the appropriate market portfolio to use in estimating the expected return on a stock sold in the Colombian stock market?
- The return on the MSCI index.
 - The return on the US aggregate index.
 - The return on the Colombian aggregate index.**
 - The return on Treasury bills.
- _____9. The alternative theory of excess returns that postulates that the risk premium on any asset is related to a small number of factor risk premiums is called the:
- International CAPM
 - Arbitrage Pricing Theory**
 - Consumption CAPM
 - Value-at-Risk (VAR) model