Certificate in Portfolio Management (CPM)

Mock Test-2

1) Individuals define risk as _________ .
   A) Deviation from some expected return.
   B) A cost of investing.
   C) A quantitative measure.
   D) Losing money.

2) Which of the following choices describes a traditional IRA?
   A) A tax- deferred retirement account for individuals not covered by a corporate pension plan
   B) A taxable retirement account for individuals not covered by a corporate pension plan
   C) A means to generate tax-free income
   D) A mean to increase current income

3) One property of a risky portfolio that combines an active portfolio of mispriced securities with a market portfolio is that, when optimized, its squared sharpe measure increases by the square of the active portfolio's ____________ .
   A) Sharpe ratio
   B) Information ratio
   C) Alpha
   D) Treynor measure

4) _________ is used to specifically measures the volatility of returns together with their correlation with the returns of other securities.
   A) Variance
   B) Standard deviation
   C) Coefficient of variation
   D) Covariance

5) Duration of measure of ____________ .
   A) Time structure of the bond
   B) Interest rate risk
   C) Time structure and market risk
   D) False

6) Consider the Treynor- Black model. The alpha of an active portfolio is 1%. The expected return on the market index is 16%. The variance of the return on the market portfolio is 4 %. The nonsystematic variance of the active portfolio is 1%. The risk- free rate.
   A) 0.487
   B) 0.5
   C) 0.513
   D) 1.0

7) The tracking error of an optimized portfolio can be expressed in terms of the _________ of the portfolio and thus reveal __________ .
   A) Return; portfolio performance
   B) Total risk; portfolio performance
   C) Beta; portfolio performance
   D) Beta; benchmark risk

8) Which of the following statement is true about municipal government debt?
   A) It pays more interest that corporate debt
   B) It is often purchased by individuals with high incomes
   C) It is except from estate taxation
   D) It is not subject to interest rate risk

9) ________ can be defined as a feasible portfolio offering highest expected return for a given risk or the least risk for a given expected return.
A) Optimal portfolio
B) Desirable portfolio
C) Efficient portfolio
D) Effective portfolio

10) To determine the optimal risky portfolio in the Treynor- Black model, macroeconomic forecasts are used for the _________ and composite forecasts are used for the _________ .
A) Passive index portfolio; active portfolio
B) Expected return; standard deviation
C) Active portfolio; passive index portfolio
D) Alpha coefficient; beta coefficient

11) Which of the following statements is correct?
A) Every line in a program must end with a semicolon
B) Every statement in a program must end with a semicolon
C) Every comment line must end with a semicolon
D) Very method must end with a semicolon

12) Default risk is lower in __________ .
A) Treasury bills
B) Government bonds
C) ICICI bonds
D) IDBI bonds

13) A manager who uses the mean- variance theory to construct an optimal portfolio will satisfy ___________ .
   A) Investor with low risk- aversion coefficients.
   B) Investors with high risk-aversion coefficients.
   C) Investors with moderate risk-aversion coefficients.
   D) All investors, regardless of their level of risk aversion.

14) _________ is the risk of loss due to fluctuations in the relative value of foreign currencies.
   A) Expropriation risk
   B) Multinational beta
   C) Exchange rate risk
   D) Diversifiable risk

15) Riding the yield curve means ___________ .
   A) Switching over from short term bonds to long term when the latter yields better
   B) Switching from bonds to stocks
   C) Switching over from long term bonds to short term bond to get more yield
   D) Switching over from short term bonds to long term when yields curve is downward sloping

16) Consider the Tryenor- Black model. The alpha of an active portfolio is 3%. The expected return on the market index is 10%. The variance of the return on the market portfolio is 4%. The nonsystematic variance of the active portfolio is 2%. The risk-free rate

A) 0.487
B) 0.983
C) 0.513
D) 1.0

17) Even low-quality forecasts have proven to be valuable because R-squares of only ________ in regression of analysts' forecasts can be used substantially improve portfolio performance.

A) 0.656
B) 0.452
C) 0.258
D) 0.001

18) Which amongst the following statement does not holds true about portfolio diversification?

A) Proper diversification can reduce or eliminate systematic risk.
B) The risk-reducing benefits of diversification do not occur meaningfully until at least 50-60 individuals securities have been purchased
C) Because diversification reduces a portfolio's total risk, it necessarily reduces the portfolio's expected return
D) All of the above

19) How do you calculate the net wealth of the aggregate economy?

A) Sum of all real assets
B) Sum of all real and financial assets
C) Sum of all physical assets
D) Sum of all financial assets

20) In the active approach the investor continuously studies __________ .

A) Group related risk
B) Market related risk
C) Security specific risk
D) All of the above

21) __________ is the measure that describes the risk of an investment project relative to other investments in general

A) Coefficient of variation
B) Beta coefficient
C) Standard deviation
D) Expected return

22) Alpha forecasts must be ___________ to account for less-than-perfect forecasting quality. When alpha forecasts are __________ to account for forecast imprecision the resulting portfolio position becomes ____________ .

A) Shrunk; shrunk; far less moderate
B) Shrunk; shrunk; far more moderate
C) Grossed up, grossed up; far less moderate
D) Grossed up, grossed up; far more moderate

23) The investment account will be increased, under the equity method to account for investments in common stock, when the investor recognizes
    A) A proportionate interest in the net income of the investee
    B) A cash dividend received from the investee
    C) Periodic amortization of the goodwill related to the purchase
    D) Depreciation related to the excess of fair value over the carrying amount of the investee's depreciable assets at the date of purchase by the investor.

24) Active portfolio management consists of ________ .
    A) Market timing
    B) Security analysis
    C) Indexing
    D) A and B

25) Creation of new assets by bundling and unbundling is referred as ________ .
    A) Asset allocation
    B) Underwriting
    C) Financial engineering
    D) Financial analytics

Answers

1. D	2. A	3. B	4. D	5. C
6. C	7. D	8. B	9. C	10. A
11. B	12. A	13. D	14. C	15. A
16. B	17. D	18. D	19. A	20. D
21. B	22. B	23. A	24. D	25. C