

Certificate in Portfolio Management (CPM) Mock Test-2



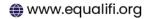


- 1) Individuals define risk as _____.
 - A) Deviation from some expected return.
 - B) A cost of investing.
 - C) A quantitative measure.
 - D) Losing money.
- 2) Which of the following choices describes a traditional IRA?
 - A) A tax- deferred retirement account for individuals not covered by a corporate 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
- The tracking error of an optimized portfolio can be expressed in terms of the _______.
 - 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

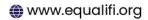
11) Which of the following statements is correct?

- 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) 0.656B) 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

