

Name: Ian Giddy	Attempt: 1	Max. Score: 18
Started: Dec 11, 1998 7:47	Finished: Dec 11, 1998 7:49	Time Spent: 2 min., 14 sec.
Student Finished 7 hrs., 57 min., 46 sec. ahead of the 480 min. Time Limit.		

Question 1 (1 marks)

Define "holding period return"

Student Response:

Correct Answer:

Rate of return over as given holding period, measured as

$HPR = (\text{End Price} - \text{Start price} + \text{Interim payments}) / \text{Start price}$

Mark:

Comments:

Question 2 (1 marks)

Suppose a share of DEC had an initial price of \$62 per share, paid a dividend of \$1.25 per share during the year, did a 2-for-1 stock split and had an ending share price of \$35.

Compute the percentage total return.

- 100.0% 1. 14.9%
 0.0% 2. 18.7%
 0.0% 3. -23.8%
 0.0% 4. -41.5%

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 3 (1 marks)

Define "the risk-free rate"

Student Response:

Correct Answer:

The interest rate that can be earned with certainty. Often assumed to be the T-bill rate.

Mark:

Comments:

Question 4 (1 marks)

What is the relation between standard deviation and variance?

0.0% 1. Variance is the square root of standard deviation.

100.0% 2. Variance is the square of standard deviation.

0.0% 3. Neither.

Score: 0.0 / 1.0 (*Question not answered*)

Override Mark:

Comments:

Question 5 (1 marks)

Apart from variance or standard deviation, what other measure might investors use to gauge risk?

Student Response:

Correct Answer:

Semi-variance

Shortfall risk (relative to a fixed return such as today's T-bill rate)

Shortfall risk (relative to a moving target such as the inflation rate)

Underperformance risk (relative to an achievable benchmark portfolio)

Mark:

Comments:

Question 6 (1 marks)

If we can assume that the probability of stock returns is normal, Expected Return and Standard Deviation are adequate to characterize the distribution.

100.0% 1. True

0.0% 2. False

Score: 0.0 / 1.0 (*Question not answered*)Override Mark:

Comments:

Question 7 (1 marks)

When we measure *historical* standard deviation, each outcome is taken as equally likely and given a probability of $1/n$.

100.0% 1. True

0.0% 2. False.

Score: 0.0 / 1.0 (*Question not answered*)Override Mark:

Comments:

Question 8 (1 marks)

Define the "capital allocation line."

Student Response:

Correct Answer:

Plot of risk-return combinations available by varying portfolio allocation between a risk-free asset and a risky portfolio.

Mark:

Comments:

Question 9 (1 marks)

Define the "reward-to-variability" ratio.

Student Response:

Correct Answer:

Ratio of risk premium to standard deviation.

Mark:

Comments:

Question 10 (1 marks)

Suppose a share of Fort James, Inc., had an initial price of \$62 per share, paid a dividend of \$1.25 per share during the year, and had an ending share price of \$45.

Compute the percentage total return.

0.0% 1. -12.8%

0.0% 2. -18.7%

0.0% 3. -23.8%

100.0% 4. -25.4%

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 11 (1 marks)

In the Fort James problem, what was the dividend yield?

100.0% 1. $r(d) = 2.02\%$

0.0% 2. $r(d) = 4.02\%$

0.0% 3. $r(d) = -2.2\%$

0.0% 4. $r(d) = 36.1\%$

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 12 (1 marks)

In the Fort James problem, what was the capital gains yield?

- 0.0% 1. $r(c) = 14.48\%$
100.0% 2. $r(c) = -27.42\%$
0.0% 3. $r(c) = -14.48\%$
0.0% 4. $r(d) = -30.27\%$
0.0% 5. A different percentage.

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 13 (1 marks)

You've observed the following returns on Traveler's stock over the past five years: 6 percent, -10 percent, 4 percent, 23 percent, and 12 percent.

What was the average return on Traveler's stock over this five-year period?

- 0.0% 1. $r = 6\%$
100.0% 2. $r = 7\%$
0.0% 3. $r = 8\%$
0.0% 4. $r = 9\%$

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 14 (1 marks)

You've observed the following returns on Traveler's stock over the past five years: 6 percent, -10 percent, 4 percent, 23 percent, and 12 percent.

Using the data, what was the variance of Traveler's returns over this period?

100.0% 1. var = .01450

0.0% 2. var = .1550

0.0% 3. var = .1600

0.0% 4. var = .1650

0.0% 5. var = .1450

General Feedback:

To find the variance, first find the mean. The variance is calculated from the sum of the squared deviations from the mean, as shown in examples in the textbook.

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 15 (1 marks)

You've observed the following returns on Traveler's stock over the past five years: 6 percent, -10 percent, 4 percent, 23 percent, and 12 percent.

Using the data, what was the standard deviation of Traveler's returns over this period?

0.0% 1. sd = 9.04%

0.0% 2. sd = 10.04%

0.0% 3. sd = 11.04%

100.0% 4. sd = 12.04%

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 16 (1 marks)

You've observed the following returns on Traveler's stock over the past five years: 6 percent, -10 percent, 4 percent, 23 percent, and 12 percent. Suppose the average inflation rate over this period was 3.5 percent and the average T-bill rate over the period was 3.8 percent.

What was the average real return on Traveler's stock?

0.0% 1. $r(\text{real}) = 2.24\%$

0.0% 2. $r(\text{real}) = 2.86\%$

100.0% 3. $r(\text{real}) = 3.38\%$

0.0% 4. $r(\text{real}) = 4.24\%$

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 17 (1 marks)

Long-Term Returns and Risks in the US Market

Series	1926 - 1996	
	Std Dev'n (%)	Return %
Large-company stocks	12.7	20.3
Small-company stocks	17.7	34.1
Long-term corporate bonds	6.0	8.7
Long-term government bonds	5.4	9.2
Intermediate-term government bonds	5.4	5.8
U.S. Treasury bills	3.8	3.3
Inflation	3.2	4.5

Suppose the returns on long-term government bonds are normally distributed. Based on the historical record, what is the approximate probability that your return on these bonds will be less than 4 percent in a given year?

0.0% 1. probability = 1/8

100.0% 2. probability = 1/6

0.0% 3. probability = 1/4

0.0% 4. probability = 1/2

Score: 0.0 / 1.0 (Question not answered)

Override Mark:

Comments:

Question 18 (1 marks)**Long-Term Returns and Risks in the US Market**

	1926 - 1996	
Series	Std Dev'n (%)	Return %)
Large-company stocks	12.7	20.3
Small-company stocks	17.7	34.1
Long-term corporate bonds	6.0	8.7
Long-term government bonds	5.4	9.2
Intermediate-term government bonds	5.4	5.8
U.S. Treasury bills	3.8	3.3
Inflation	3.2	4.5

Suppose you invest in small-company stocks and that their returns are normally distributed. Based on the historical record, what is the approximate probability that your money will double in value in a single year?

100.0% 1. probability = .0001

0.0% 2. probability = .001

To learn about calculating the probability of a particular return using Excel, download the file [prob.xls](#)

0.0% 3. probability = .0013

0.0% 4. probability = .013

Score: 0.0 / 1.0

Override Mark:

Comments:

Quiz Mark Adjustment:

General Quiz Comments:

Total Score: 0.0 / 18 = 0.0%
