Question 1 (1 marks)

Define "holding period return"

Student Response:

Correct Answer:

Rate of return over as given holding period, measured as

\[ \text{HPR} = \frac{\text{End Price} - \text{Start price} + \text{Interim payments}}{\text{Start price}} \]

Mark: 0
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.

1. 100.0%  2. 14.9%
2. 0.0%  3. 18.7%
3. 0.0%  4. -23.8%
4. 0.0%  5. -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: 0
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: 0
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: 0

Comments:

Question 9 (1 marks)

Define the "reward-to-variability" ratio.

Student Response:

Correct Answer:

Ratio of risk premium to standard deviation.

Mark: 0

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?
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)

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?

Score: 0.0 / 1.0 (Question not answered)

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)

Question 17 (1 marks)

Long-Term Returns and Risks in the US Market

<table>
<thead>
<tr>
<th>Series</th>
<th>Std Dev'n (%)</th>
<th>Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-company stocks</td>
<td>12.7</td>
<td>20.3</td>
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<tr>
<td>Small-company stocks</td>
<td>17.7</td>
<td>34.1</td>
</tr>
<tr>
<td>Long-term corporate bonds</td>
<td>6.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Long-term government bonds</td>
<td>5.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Intermediate-term government bonds</td>
<td>5.4</td>
<td>5.8</td>
</tr>
<tr>
<td>U.S. Treasury bills</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

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)
### Question 18 (1 marks)

**Long-Term Returns and Risks in the US Market**

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</table>

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
Total Score: **0.0 / 18 = 0.0%**