

NAME: \_\_\_\_\_

BEM 103 QUIZ 6

1. *In a CAPM world an investor who wants a high return*
  - a) Just holds the market portfolio
  - b) Shorts the market portfolio and goes long on the riskless asset
  - c) Shorts the riskless asset and goes long on the market portfolio
  - d) Shorts low  $\beta$  stocks and goes long on high  $\beta$  stocks
  
2. *In a CAPM world an investor who wants to reduce his volatility*
  - a. Weights bonds more than stocks
  - b. Shorts stocks and goes long in bonds
  - c. Holds more of the riskless asset and less of the market portfolio of stocks and bonds
  - d. Holds only bonds.
  
3. *firm A and firm B have identical future income streams, but firm A is more leveraged than firm B.*
  - a. Modigliani Miller applies and Firm A's stock has a higher  $\beta$  than firm B's stock
  - b. Modigliani Miller applies and Firm A's stock has the same  $\beta$  as firm B's stock
  - c. Modigliani Miller does not apply and Firm A's stock has a higher  $\beta$  than firm B's stock
  - d. Modigliani Miller does not applies and Firm A's stock has the same  $\beta$  as firm B's stock
  
4. *Suppose you are making a portfolio decision with  $m$  securities and then have to consider one more.*
  - a. The  $m$  securities efficient frontier may be better than the  $m+1$  securities frontier.
  - b. There are some rates of return for which the  $m$  securities frontier is better than the  $m+1$  securities frontier.
  - c. The  $m$  securities frontier never dominates the  $m+1$  securities frontier.
  - d.  $m+1$  securities frontier always dominates the  $m$  securities frontier for investors who are more willing to bear risk