

NAME: _____

BEM 103 QUIZ 7

1. *Portfolio separation means that*

- a) **Everyone investor's risky portfolio is the same**
- b) The weight on corporate bonds and on equity vary according to risk aversion
- c) You must use a fund manager for your investment decisions
- d) No short sales of the riskless asset

2. *The no arbitrage condition in a CAPM world implies*

- a. No short sales of the riskless asset
- b. No short sales of risky assets**
- c. The price of risk is exponential
- d. Additivity is violated

3. *Why is there a difference between expected utility and the utility of the expected value if you are risk averse? _____* Because a risk averse person enjoys the average for sure more than the risk between two outcomes $(U(p(x)+(1-p)(y)) > pU(x) + (1-p)U(y)$

4. *What must be true for you to buy a long forward contract?*

- a. You must be risk neutral.
- b. You must be short in the underlying asset.
- c. The price of the forward is not higher than the cost of a buy and hold strategy.**
- d. The asset depreciates rapidly