Session 5: Post Class tests

1. In the mean variance framework, we assume that investors judge investments on only two dimensions, the expected return being the good and the variability of returns around that expectation being the bad. In this framework, find the best and worst investments.
    a. Expected Return = 3%, Standard deviation = 20%
    b. Expected Return = 8%, Standard deviation = 10%
    c. Expected Return = 8%, Standard deviation = 20%
    d. Expected Return = 5%, Standard deviation = 10%
    e. Expected Return = 3%, Standard deviation = 10%

    How would you rank them?
2. If you are a diversified investor in Facebook, which of the **following types of risk would you consider to be <u>not diversifiable</u>**?
    a. The risk that new privacy laws will restrict data gathering and access
    b. The risk that users will find a different social media platform to spend their time on.
    c. The risk that a global economic slowdown will affect how much companies spend on advertising
    d. The risk that Mark Zuckerberg will stay on as CEO
    e. The risk that Mark Zuckerberg will leave as CEO
3. As you hold more investments in your portfolio, you get more diversified. The key benefit of being diversified is:
    a. That you will never lose money
    b. That you will have no risk in your portfolio
    c. That you will make higher returns than investors who are not diversified
    d. That you will have lower risk than investors who are not diversified
    e. That you will get a better risk/return trade off than investors who are not diversified
4. To make the assumption that the one risk that will be priced in by the market is risk that cannot be diversified away, which of the following assumptions do you need to make?
    a. That all investors are diversified
    b. That companies are diversified across businesses
    c. That investors who hold large stakes and trade them, are diversified
    d. That most investors are diversified
    e. That the founder/CEO is diversified
5. In the CAPM, investors are not just diversified but supremely so, holding every risky asset in the market, in proportion to market value (market portfolio). What assumptions do you need to make for this to be true?
    a. There are no transactions costs to adding investments
    b. There is no payoff to picking stocks (no private information)
    c. Every asset is traded
    d. There is a riskfree alternative
    e. All of the above