**MCQs: Class-09- Risk & Return**

**47. Multiple Choice Questions**

**1. Beta, p, of risk-free investment is (a)Zero,(b)l, (c)-l, (d)None of these.**

**2. Return of a portfolio is**

**(a)Total Return of all elements,(b)Average Return of all elements, (c)Highest Return (d) Lowest Return**

**3. Which of the following is diversifiable risk?**

**(a)lnflation Risk,(b)Interest Rate Risk,(c)Seasonal Risk, (d)All of the above.**

**4. Which of the following is not a non-diversification**

**(a)Industrial recession, (b) Lock-out in a company, (c)Political Instability, (d)Both (a) and (c).**

**5. Which of the following is true? (a)Risk can never be reduced to zero,(b)Diversification always reduces risk to**

**zero,(c)Diversification does not affect risk,(c)None of the above.**

**6. Standard deviation can be used to measure**

**(a)Risk of an investment, (b) Return of an investment, (c)Both(a)&(b) and (d) None of (a) and (b).**

**7. Which of the following is true?**

**(a) Higher the Beta, lower the risk, (b)Higher the Beta, higher the risk,(c)Risk is constant, (d) Beta is constant.**

**8. Amount of risk-reduction in a portfolio depends upon**

**(a)Market movement, (b) Degree of correlation, (c)No. of shares, (d) Both (b) and (c).**

**9. In a diversified portfolio, a new security adds**

**(a) Systematic Risk,(b) Unsystematic Risk,( c) Liquidity Risk, (d) None of the above.**

**10. Risk-Return trade off implies (a) Minimization of Risk, (b) Maximization of Risk, (c)Ignorance of Risk**

**(d) Optimization of Risk**

**11. Basic objective of diversification is**

**(a) Increasing Return, (b) Maximising Return, (c) Decreasing Risk, (f) Maximizing Risk.**

**12. Risk-aversion of an investor can be measured by**

**(a) Market Rate of Return, (b) Risk-free Rate of Return, (c) Portfolio Return, (d) None of the above.**

**13. Risk of a portfolio depends on**

**(a) Risk of elements, (b) Correlation of return ; (c) Proportion of elements, (d) All of the above.**

**14. Which of the following will increase the required rate of return?**

**(a)Increase in Interest Rates, (b) Increase in Risk-free Rate, (c)Increase in Degree of Risk-Aversion**

**(d) All of the above.**

**75. Systematic risk of a security can be measured by**

**(a) Coefficient of variation, (b)Standard Deviation, (c)Beta,(d)Range.**

**16. Which of the following is unsystematic risk to a firm?**

**(a)lnflation,(b)Surcharge of Income-tax, (c)Interest Rate,(d) Scarcity of Raw Material.**

**7. Total portfolio risk is equal to systematic plus**

**(a)Non-diversifiable,(b)Diversifiable,(c)Unavoidable,(d)None of the above**

**18. Which of the following is diversifiable through diversification?**

**(a)Systematic,(b)Unsystematic,(c)Both of the above,(d)None of the above**

**19. Which of the following is the variability of the return from a share associated with the market as a whole?**

**(a) Unsystematic, (b)Avoidable,(c)Systematic,(d)None of the above**

**20. Which of the following describes the relationship between expected rate of return and the standard duration?**

**(a) Characteristic Line,(b)Capital Market Line,(c)Security Market Line,(d)None of the above**

**21. Which of the following describe the relationship between expected rate of return and the P?**

**(a)Security Market Line,(b)characteristic Line, (c) Capital Market Line,(d)None of the above**

**22. Which of the following describes the relationship between systematic risk and return?**

**(a)Arbitrage Pricing Theory, (b) Capital Assets Pricing Model, (c)Harry Marketing Model, (d) Capital Market Line**

**23. In CAPM, p (Beta) factor measures (a) Return of an asset, (b) Risk of an asset, (c) Life of an asset, (d) Capital investment**

**24. Which is the beta for a treasury stock?**

**(a) Zero, (b) One, (c) Greater than one, (d) Less than one**

**25. Stock beta measures (a) EPS,(b)Debt Equity Ratio, (c)Dividend, (d) Stock Volatility**

**26. Risk avoidable through proper diversification is known as**

**(a) Portfolio Risk, (b) Unsystematic Risk,(c) Systematic Risk, (d) Total Risk**

**2 7. Expected Return on the market in 16% and Risk free rate is 6%, which of the following projects be accepted.**

**(a) A:p = 0.50, Return = 11.5%**

**(b) B: p = 1.25, Return = 18.0%**

**(c) C: p = 1, Return = 15.5%**

**(d) D: p = 2, return = 25.0%**

**28. If the intrinsic value of a share is less than the market price, which of the most reasonable?**

**(a) That shares have lesser degree of risk, (b) That market is over valuing the shares**

**(c)That the company is high dividend paying, (d) That market is undervaluing the share**

**29. An aggressive share would have a beta**

**(a)Equal to Zero, (b) Greater than one, (c)Less than Zero, (d)Equal to one**

**[Answers 1. (a), 2. (a), 3. (c), 4. (b), 5. (d), 6. (a), 7. b. , 8(b), 9. (a), 10. (d), 11. (c), 12. (d), 13. (d), 14. (d), 15. (c),16(d), 17. (b), 18. (b), 19. (c), 20. (b), 21. (a), 22. (b), 23. (b), 24(a), 25 (d), 26. (b), 27. (a), 28. (b), 29. (b).]**

**48. State whether each of the following statements is True (T) or False (F)**

**(i) Derivatives are securities similar to shares and debentures.**

**(ii) Underlying assets of a derivative must be a physical asset.**

**(iii) Standardised forward contracts may be called futures.**

**(iv) Forward contracts are traded only at computerised stock exchanges.**

**(v) All futures contract must be settled by delivery of the asset.**

**(vi) In case of futures, the counterparty guarantee provided by the exchange.**

**(vii) Futures contracts do have a theoretical price.**

**(viii) Seller of a futures contract incurs a loss when the future price increases.**

**(ix) Option premium is the price for getting a right against other party.**

**(x) In options, the option writer has a right against the option holder.**

**(xi) Options contract is only an extended version of a futures contract.**

**(xii) Call options and put options are inverse of each other.**

**(xiii) American options can be exercised only on the strike date.**

**(xiv) There is no fixed strike date in European options.**

**(xv) Option premium is one time non-refundable amount.**

**(xvi) Expiry date of an option contract is mutually decided by the parties.**

**(xvii) Loss of the call options holder is always limited.**

**(xviii) Loss of the put option holder is always limited.**

**(xix) Excess of call option market price over the strike price is called intrinsic value.**

**(xx) Intrinsic value of an option is non-negative.**

**(xxi) Swap deals with the delivery of a physical asset.**

**(xxii) Swap arrangements are always standardised.**

**(xxiii) All derivatives contracts on NSE are cash settled.**

**(xxiv) Futures and Options are available on the shares in India.**

**[Answers (i) F, (ii) F, (iii) T, (iv) F, (v) F, (vi) T, (vii) T, (viii T, (ix) T, (x) F, (xi) F, (xii) F, (xiii) F, (xiv) F, (xv) T, (xvi) F, (xvii) T, (xviii) T, (xix) T, (xx) T, (xxi) F, (xxii) F, (xxiii) T, (xxiv) 2]**

**49. Multiple Choice Questions**

**1. A Futures contract is standardized version of a**

**(a)Put option, (b)Call optionee) Call + Put,(d)Forward contract**

**2. Margins are imposed on options sellers to safeguard the interest of**

**(a) Exchange, (b) Brokers, (c) Buyers, (d) d) All of the above**

**3. In Futures trading, the margin in payable to the broker by**

**(a)Buyer of Futures, (b)Sellers of Futures, (c)None of (a) and (b),(d)Both of (a) and (b)**

**4. A contract which gives the holder a right to buy a particular asset at a particular rate on or before a specified date is known as (a) European Option, (b) Straddle, (c) American Option, (d) Strangle**

**5. In India, derivatives in interest rates are regulated by (a) Securities and Exchange Board of India, (b) Forward Market Commission, (c) Reserve Bank of India, (d) Ministry of Finance**

**6. The maximum loss of a call option holder is equal to**

**(a) Strike-Spot Price,(b) Spot Price, (c) Premium, (d)So + Premium**

**7. The maximum loss of a put option writer is equal to**

**(a)Strike Price - Premium, (b) Strike Price, (c)Spot Price, (d)Strike Price plus premium**

**8. Intrinsic Value of a 'out of money' call option is equal to (a)Premium,(b)Zero,(c)Spot Price, (d)Strike Price**

**9. Flolder of an American call option can (a)Buy the asset only onexpiration, (b)Sell the asset on or before expiration, (c) Buy the asset on or before expiration, (d)Sell the asset only on expiration**

**10. How the increase in volatility in asset price, will affect the value of the option?**

**(a)Increase the value, (b)Decrease the value, (c)May not affect, (d)Any of the above**

**11. Holder of European put option can**

**(a) Sell the asset on or before expiry, (b)Sell the asset on or after expiry, (c)Sell the asset on expiry only (d) Sell the asset before expiry only**

**12. Maximum gain of a put option holder is restricted to**

**(a)Strike Price,(b)Spot Price, (c)Spot Price - Premium, (d)Strike Price - Premium**

**13. Break-even of a call option occurs when spot price is equal to**

**(a)Strike Price + Premium, (b) Strike Price - Premium, (c)Premium, (d)None of the above**

**14. Break-even of a Put option occurs when spot price is equal to**

**(a)Strike price + Premium, (b) Strike Price - Premium, (c)Premium,(d)None of the above**

**15. Before expiry date, the time value of a call option is**

**(a)Strike Price - Spot Price, (b)Spot Price - Strike Price, (c)Market Premium - Intrinsic Value, (d) Intrinsic Value**

**16. Out of 4 factors i.e.,(i) Dividend Yield, (ii) Market Interest, Rates, (iii) Time to Expiry, and (iv) Price volatility, which affect the premium of an option?(a) (i), (ii), and (iv),(b), (ii),(iii)and (iv),(c) (ii) and (iv),(d) (i), (iii) and (iv)**

**17. In Futures, the terms and conditions are standards with reference to**

**(a)Rate and Date only, (b)Quantity only,(c)Place of delivery only,(d)All of the above**

**18. In call options, which of the following has an m relation with its value?**

**(a)Volatility,(b)Time to Expiry, (c)Strike Price, (d)Spot Price**

**19. If Strike price is more than the spot price of the asset, the call option is known as**

**(a)American Option, (b) European Option,(c)Out of Money Option,(d)In the Money Option**

**[Answers l.(d), 2. (d), 3. (d), 4. (c), 5. (c), 6. (c), 7(a), 8(b), 9. (c), 10. (a), 11. (c), 12. (d), 13. (a), 14. (b), 15 (c), 16(d), 17. (d), 18. (c), 19. (c)]**

**50. State whether each of the following statement is True (T) or False (F)**

**(i) The terms mergers and takeovers refer to same type of situation.**

**(ii) Accounting Standard 14 (AS -14) classifies mergers as Vertical and Horizontal.**

**(iii) A conglomerate merger is a situation when all firms of a group are amalgamated into one.**

**(iv) 'Poisson Pill 1 and 'White knight' are types of mergers.**

**(v) Increasing profit and lessening competition are the only objectives of mergers.**

**(vi) Financial evaluation of the target firm is a compulsory step in the merger process.**

**(vii) Assets and Earnings of the target firm can be used for evaluation of that firm.**

**(viii) Operating Cash flows to Firm (OCFF) are always more than Operating Cash Flows to Equity (OCFE).**

**(ix) Economic Value Added (EVA) of a firm is always positive.**

**(x) Swap Ratio and Share Exchange Ratio are one and the same thing.**

**(xi) In case the swap ratio is calculated on the basis of EPS, the market value of holding of equity shareholders would be protected.**

**(xii) In order to protect the earnings available to shareholders, the swap ratio should be based on EPS.**

**(xiii) In hostile Takeover bid, the price of the merger depends upon the mutual consent.**

**(xiv) In tender offer method, every shareholder has to sell his shares to the acquiring firm.**

**(xv) The aim of the new Takeover Code announced by SEBI is to make the process of takeover more transparent.**

**(xvi) Offer once made to acquire shares cannot be revoked.**

**(xvii) No competitive bid can be made for takeover of shares of other company**

**(xviii) Can a merger proposal be evaluated as a capital budgeting decision.**

**[Answers (i) F, (ii) F, (iii) F, (iv) F, (v) (F), (vi) T, (vii) T, (viii) T, (ix) F, (x) T, (xi) F, (xii) T, (xiii) F, (xiv) F, (xv) T,**

**(xvi) F, (xvii) F, (xviii) T ]**