As diversification increases, the systematic risk of a portfolio approaches:

|  |  |  |
| --- | --- | --- |
|  | a. | 0 |
|  | b. | An amount equal to the unsystematic risk of the portfolio. |
|  | c. | The total risk, or standard deviation, of the portfolio. |
|  | d. | None of the above. |

The CAPM required return on a stock exceeds the risk-free rate by 11%. The return on the market index is 16%. The risk-free rate of return is 5%. The β of the stock is:

|  |  |  |
| --- | --- | --- |
|  | a. | 0.67. |
|  | b. | 0.75. |
|  | c. | 1.0. |
|  | d. | 1.33. |
|  | e. | 1.50. |
|  |  |  |

You are evaluating stock Y. It has a beta of 1.5. The risk-free rate is 2 percent. The expected market rate of return is 10 percent. Your independent analysis indicates that Y will produce a return of 12 percent. If the security market line is your benchmark, you should:

|  |  |  |
| --- | --- | --- |
|  | a. | Buy stock Y because it is overpriced. |
|  | b. | Short sell Y because it is overpriced. |
|  | c. | Short sell Y because it is underpriced. |
|  | d. | Buy stock Y because it is underpriced. |
|  | e. | None of the above, as the stock is fairly priced. |
|  |  | Coca-Cola is one of the Dow Jones Industrial Average components. If Coca-Cola’s stock price rises by $1, the Dow Jones Industrial Average will rise:   |  |  |  | | --- | --- | --- | |  | a. | By more than 1 point because Coca-Cola is one of the larger companies in the Average. | |  | b. | By more than 1 point because of the many stock splits that have occurred during the Average’s history. | |  | c. | By less than 1 point because there are 30 stocks in the Average. | |  | d. | By less than one point because the level of the Average is so high. | |
|  |  |  |