

1. As one of your duties as the chief risk officer for a fund of funds, you evaluate the risk management of candidate hedge funds. In your evaluation of a newly organized two person hedge fund, which of the following is your primary consideration?
 - a. Risk reporting structure
 - b. Investment style
 - c. Assets under management
 - d. Last month's return

2. Which of the following risk management strategies of a firm which has principal payments to make on its debt in one year that substantially exceed the market value of its assets is most likely to be in the interest of the shareholders?
 - a. Reduction of the overall risk level of the firm
 - b. Increase of the overall risk level of the firm
 - c. Keep the same risk level
 - d. It is impossible to say which risk management strategy the shareholders prefer

3. Arbitrage pricing theory (APT) models are different from empirical factor (EF) models for all of the following reasons EXCEPT:
 - a. That the APT factors are implicit and not empirically observed.
 - b. That the APT uses a two-step process compared to the single step in an EF model.
 - c. That the APT tends to be macroeconomic in nature and the EF more often fundamental.
 - d. That the APT computes an expected or required return from estimated coefficients.

4. For a given portfolio, the expected return is 10% with a standard deviation of 15%. The beta of the portfolio is 0.75. The expected return of the market is 11 % with a standard deviation of 18%. The risk-free rate is 4%. The portfolio's Treynor measure is:
 - a. 0.060.
 - b. 0.012.
 - c. 0.040.
 - d. 0.080.

5. An analyst has knowledge of the beginning-of-period expected returns, standard deviations of return, and market value weights for the assets that comprise a portfolio. The analyst does not require the covariance's of returns between asset pairs to calculate the:
 - a. expected return on the portfolio.
 - b. variance of the return on the portfolio
 - c. correlations between asset pairs.
 - d. reduction in risk due to diversification.

6. The intercept and slope of the capital market line are: ,
- R_F and $[E(R_M) - R_F] / \sigma_M$, respectively.
 - R_M and $[E(R_p) - R_F] / \sigma_p$, respectively.
 - R_F and $[E(R_p) - R_F] / \sigma_M$, respectively.
 - R_M and $[E(R_M) - R_p] / \sigma_M$, respectively.

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