## **CHAPTER 8**

**Risk and Return**

7. True or False?

a. The CAPM implies that if you could find an investment with a negative beta, its expected return would be less than the interest rate.

b. The expected return on an investment with a beta of 2.0 is twice as high as the expected return on the market.

c. If a stock lies below the security market line, it is undervalued.

9. True or False? Explain or qualify as necessary.

a. Investors demand higher expected rates of return on stocks with more variable rates of return.

b. The CAPM predicts that a security with a beta of 0 will offer a zero expected return.

c. An investor who puts $10,000 in Treasury bills and $20,000 in the market portfolio will have a beat of 2.0.

d. Investors demand higher expected rates of return from stocks with returns that are highly exposed to macroeconomic risk.

e. Investors demand higher expected rates of return from stocks with returns that are very sensitive to fluctuations in the stock market.