Module 1.1 - Answers

Question 1

If an investment loses 3% of its value over 120 days, its annualized return is *closest* to:

A) −8.0%.

B) −8.5%.

C) **−9.0%.** ✓

Explanation

Annualized return = $(1-0.03)^{\frac{365}{120}} - 1$ = –0.0885 = –8.85%.

(Module 1.1, LOS 1.a)

Question 2

If a stock's initial price is $20 and its price increases to $23, its continuously compounded rate of return is *closest* to:

A) 13.64%.

B) **13.98%.** ✓

C) 15.00%.

Explanation

$\ln\frac{23}{20}$ = 0.1398 = 13.98%.

(Module 1.1, LOS 1.a)

Question 3

An ex ante return is described *most accurately* as a return:

A) **expected over a future period. ✓**

B) realized in a specified past period.

C) that would be realized in a year if past performance continues.

Explanation

An ex ante return is an expected return. A return realized in a past period is an ex post return. An annualized return is one that would be realized in a year if an investment's past performance continued over the year.

(Module 1.1, LOS 1.a)