

## Chapter 13 - Practice Questions

1. Tests of multifactor models indicate
  - A) the single-factor model has better explanatory power in estimating security returns.
  - B) macroeconomic variables have no explanatory power in estimating security returns.
  - C) it may be possible to hedge some economic factors that affect future consumption risk with appropriate portfolios.
  - D) multifactor models do not work.
  - E) none of the above is true.
  
2. If a professionally managed portfolio consistently outperforms the market proxy on a risk-adjusted basis and the market is efficient, it should be concluded that \_\_\_\_\_.
  - A) the CAPM is invalid
  - B) the proxy is inadequate
  - C) either the CAPM is invalid or the proxy is inadequate
  - D) the CAPM is valid and the proxy is adequate
  - E) none of the above
  
3. The Fama and French three factor model uses \_\_\_\_, \_\_\_\_, and \_\_\_\_ as factors.
  - A) industrial production, term spread, default spread
  - B) industrial production, inflation, default spread
  - C) firm size, book-to-market ratio, market index
  - D) firm size, book-to-market ratio, default spread
  - E) none of the above

## **Answer Key**

1. C
2. C
3. C