

**Question 1 of 22**

Which of the following best explains why the U.S. equity premium is puzzling to most economists?

- A. Because it is highly time-varying and often negative during recessions.
  - B. Because it is historically far too low.
  - C. Because it is unlikely to persist in the future.
  - D. Because it implies that investors are extremely risk averse.
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**Question 2 of 22**

Which of the following solutions is best suited to deal with the problem of beta expansion of hedge fund returns?

- A. Betas should be estimated using a period that includes rising markets, since beta expansion typically occurs during rising markets.
  - B. Betas should be estimated using at least 5 years of monthly data.
  - C. Betas should be estimated using a period that excludes declining markets, since beta expansion typically occurs during declining markets.
  - D. Betas should be estimated using a range of market conditions that include rising and falling markets.
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**Question 3 of 22**

A hypothesis test with a 5% significance level carried out on a hedge fund's returns using a well-specified model identifies a statistically significant positive alpha. Which of the following is the most accurate interpretation of this result?

- A. There is a 95% chance that the fund manager generated skill-based positive alpha.
  - B. There is a 95% chance that the fund is incorrectly estimated as having non-zero alpha if it has zero alpha.
  - C. There is a 5% chance that the fund is incorrectly estimated as having non-zero alpha if it has zero alpha.
  - D. There is a 5% chance that the fund manager generated skill-based positive alpha.
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**Question 4 of 22**

A mutual fund has historically invested in a broadly diversified portfolio of stocks, bonds, and cash. It has earned a small positive absolute return over the market in each of the past five years. The correlation coefficient of the fund with the S&P 500 is equal to 0.99. Which of the following best characterizes this fund?

- A. product innovator
  - B. beta driver
  - C. alpha driver
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**Question 5 of 22**

A researcher is reviewing the performance of a set of global macro hedge funds. Which of the following most likely result in unreliable alpha estimates for these hedge funds?

- A. not randomly selected funds, outliers, and causality
- B. spurious correlation, normal returns, and outliers
- C. skewed returns, biased testing, and chumming
- D. outliers, non-normal returns, and data dredging

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**Question 6 of 22**

Use the information below to answer the question that follows.

Carla Munoz is an investment adviser who uses a single-factor market model to estimate the expected alpha of the DEF fund. She estimates that the expected return of the DEF fund is 12.5%, the expected return of the market portfolio is 13%, and the fund's beta is 0.8. The risk-free rate is 3%.

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In 2019, the return on the market portfolio was 10%, the risk-free rate was 3%, and the return of the DEF fund was 15%. Which of the following comes closest to the realized alpha of the DEF Fund in 2019?

- A. 1.4%
- B. 2.7%
- C. 5.0%
- D. 6.4%

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**Question 7 of 22**

A true data-generating process specifies that a fund's returns depend on four risk factors: market, size, value, and momentum. The compensation for bearing each of these types of risk is positive, and the fund has zero alpha and positive betas on all four risk factors. An analyst estimates the fund's alpha using a two-factor model with the market and size factors. Which of the following most accurately represents the measure of the fund's alpha?

- A. statistically less than 0
- B. statistically greater than 0
- C. statistically equal to 0

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**Question 8 of 22**

The covariance between the return on asset A and the return on the market portfolio is 0.045 and the variance of the return on the market portfolio is 0.063. Which of the following comes closest to the value of the systematic risk of asset A, as measured by its beta?

- A. 0.0036
- B. 0.0525
- C. 0.7143
- D. 1.0851

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**Question 9 of 22**

Which of the following most accurately describes how an underestimated beta coefficient of a regression model affects the results of the model?

- A. The intercept of the regression model will be overstated.
- B. The intercept of the regression model will be understated.
- C. The intercept and slope coefficients of the regression model will be biased.

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**Question 10 of 22**

In 2022, a mutual fund underperformed the market by 4%. The fund's expected return was 18%, its beta was 1.2, and the market's expected return was 16.3%. If the risk-free rate was 1.4%, which of the following comes closest to the fund's return in 2022 that was attributable to bad luck?

- A. -5.52%
- B. -2.72%
- C. -2.25%
- D. -1.45%

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**Question 11 of 22**

Which of the following hedge funds is most likely to be riskier than the broad market?

- A. A fund with a standard deviation of 14.8%.
- B. A fund with a monthly drawdown of 8%.
- C. A fund with a beta of 1.34.
- D. A fund with an average return of 25.9%.

**Question 12 of 22**

A systematic risk factor that should be included in a regression model is not included. Given that the risk factor has a positive expected return, the resulting omitted factor bias is most likely to result in which of the following?

- A. underestimated beta factors
  - B. underestimated intercept
  - C. inflated intercept
  - D. inflated beta factors
- 

**Question 13 of 22**

A portfolio has 50% allocated to equity and 50% allocated to debt. The allocation to equity may be broken down into which of the following subclasses?

- A. Beta drivers consisting of equity-based exchange-traded funds and alpha drivers consisting of private equity and equity-based hedge funds.
  - B. Beta drivers consisting of private equity and alpha drivers consisting of equity-based hedge funds.
  - C. Beta drivers consisting of mutual funds indexed to the S&P 500 Index and alpha drivers consisting of distressed debt hedge funds.
  - D. Beta drivers consisting of market-neutral hedge funds and alpha drivers consisting of absolute return funds.
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**Question 14 of 22**

Shawn Washington is an analyst who has estimated realized alphas over the periods 2011-2016 and 2017-2022. Which of the following levels of correlation between the alphas of the two time periods is indicative of abnormal return persistence?

- A. positive correlation
  - B. zero correlation
  - C. negative correlation
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**Question 15 of 22**

Beta most accurately measures which of the following risks?

- A. total risk
  - B. unsystematic risk
  - C. idiosyncratic risk
  - D. non-diversifiable risk
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**Question 16 of 22**

An analyst has run a linear regression of her fund's monthly returns against the returns on the S&P index over a five-year period, and finds that the beta coefficient of the regression model is statistically equal to zero. Which of the following is the most accurate interpretation of this result?

- A. The analyst's fund returns have a perfect relationship with the S&P index's returns.
  - B. The analyst's fund returns have no relationship with the S&P index's returns.
  - C. The analyst's fund returns have no linear relationship with the S&P index's returns.
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**Question 17 of 22**

The fund manager of the Inflow fund has experienced a large increase in assets under management over the past couple of years. To keep his fund's level of expected returns constant, he changes his portfolio holdings to increase the fund's exposure to systematic risk. Which of the following terms best describes the resulting effect on the fund's beta?

- A. beta loss
  - B. beta creep
  - C. beta expansion
  - D. beta crawl
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**Question 18 of 22**

An asset's exposure to systematic risk increases when general economic conditions change. Which of the following terms is used to describe this characteristic?

- A. beta enhancement
  - B. beta expansion
  - C. beta creep
  - D. beta crawl
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**Question 19 of 22**

A fund has an expected return of 16.7% and a beta of 0.88. The market has an expected return of 14%, and the risk-free rate is 1.9%. If, during the next year, the fund earns 15.1% and the market earns 13.5%, which of the following come closest to the fund's forecasted alpha and realized alpha, respectively?

- A. 2.99%; 6.05%
  - B. 2.99%; 6.24%
  - C. 4.15%; 2.06%
  - D. 4.15%; 2.99%
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**Question 20 of 22**

The Superalpha fund has an ex-ante alpha of 0.7%. In 2018, the fund had an estimated beta of 1.6 and an excess return of 8%, and the market had an excess return of 5%. Which of the following comes closest to the portion of the fund's ex-post alpha that can be attributable to luck?

- A. -0.7%
  - B. 0%
  - C. 0.7%
  - D. 3%
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**Question 21 of 22**

Florence Hill is an investment consultant for wealthy individuals and seeks to invest approximately 15% of her clients' portfolios in product innovators. In which of the following products is she LEAST likely to invest this fraction of her clients' assets?

- A. private real estate funds
  - B. exchange-traded funds
  - C. private equity funds
  - D. market-neutral hedge funds
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**Question 22 of 22**

An analyst performs a hypothesis test on the relationship between the points scored by the Chicago Bears football team on a Sunday and the return of German bond futures on the following Monday. The test sets a level of significance at 1% and, using data on the past 30 football seasons, generates a p-value of 0.0004. The analyst concludes that there is a statistically significant relationship between the points scored by the Chicago Bears and the return of German bond futures on the following day. Which of the following mistakes is the analyst most likely making?

- A. failing to set a correct level of significance
  - B. incorrectly interpreting the p-value
  - C. using too little data
  - D. finding a spurious correlation
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### Answer Sheet

Question #	Question ID	Your Response				Flagged
1	L1-2.9.2-021	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
2	L1-2.9.4-020	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
3	L1-2.9.5-020	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
4	L1-2.9.2-033	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
5	L1-2.9.5-019	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
6	L1-2.9.4-026	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
7	L1-2.9.4-009	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
8	L1-2.9.1-027	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
9	L1-2.9.4-084	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
10	L1-2.9.4-092	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
11	L1-2.9.1-082	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
12	L1-2.9.4-041	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
13	L1-2.9.2-034	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
14	L1-2.9.3-007	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
15	L1-2.9.1-028	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
16	L1-2.9.5-021	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
17	L1-2.9.4-008	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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19	L1-2.9.4-091	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
20	L1-2.9.4-017	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
21	L1-2.9.2-013	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
22	L1-2.9.5-018	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>