

CFA® SAMPLE QUESTION - LEVEL I

Corporate Finance

Q: The covariance of the market's return with the stock's return is 0.010 and the standard deviation of the market's return is 0.08. So what is the stock's beta?

CORRECT ANSWER:

(a) 1.56

Remember that $\text{Beta} = \text{Covariance} / \text{Market Variance}$

$\text{Market Variance} = \text{Market Standard Deviation}^2 = 0.08^2 = 0.0064$

$\text{Stock's beta} = 0.010 / 0.0064 = 1.56$



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