

Comments on exam paper for candidate 17773.

The paper received a grade of A.

In spite of receiving an A, there are still some weaknesses in the exam paper. The exam consisted of three questions with several subquestions. Of these, in this exam paper there are weaknesses in subquestions 1d, 2d-f and 3a. Overall, though, and comparing this exam paper to the cohort, it was deemed to be of sufficient quality to receive an A.

General comment: This exam paper shows a common weakness. In a good answer, each answer should be lead in with a clarification of how the question should be understood. So for example, when the first question starts: “Illustrate, using a diagram...”, a good answer would start off something like: “We are asked to illustrate the tradeoff in mean-variance space...” and some more comments, before giving the figure. Instead, the answer here just gives a figure, with no comments. This is not an good strategy for writing up the answer.

1a) Bare-bones illustration with no comments, could do with some text.

1b) The student does not really get the point here. When introducing the risk free asset, the only way to get to the “most northeast” part of the opportunity set (highest return for a given standard deviation) is to choose a portfolio on the line between the risk free rate and the tangency portfolio on the efficient set. This follows from the mean-variance preferences of the investors. It is not an equilibrium argument.

1c(i) Get the argument: Even if an asset is not mean-variance efficient in itself, it will be part of the market portfolio.

1c(ii). Get the argument. One missing element, though. The candidate states that the market portfolio can not have the same return as the risk free rate, without justification.

1d(i). This is only partially correct. It is true that the key equation to test is the CAPM equation, but it is wrong to bring in an argument about arbitrage opportunities. Arbitrage opportunities are not something that hold in expectation....

1d(ii) Similarly, the candidate mentions some well known issues in empirical testing of the CAPM, but then starts talking about arbitrage opportunities again...

1d(iii) The argument here is about the Roll critique, which is a key issue to bring up in this context. But argument not clear.

Question 2, general: Candidate would get more credit if explained what is being done...

Question 3.

(a) The candidate does not seem to understand the question, the answer is meaningless.

(b-d) correct.