Quiz On The Day Before Lecture # 9

Single-Index and Multifactor Models

Consider the following two regression lines for stocks A and B in the following figure.
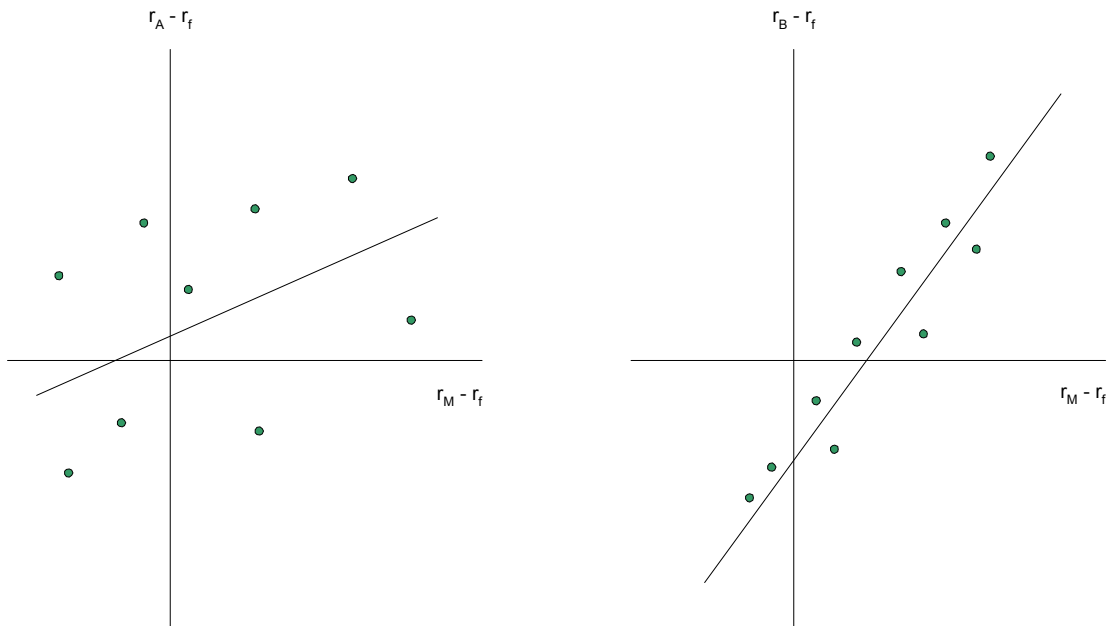

Figure 1: Regressions of Stock A and B vs. Market

which stock has higher firm-specific risk?
Which stock has greater systematic (market) risk
Which stock has higher R^2
which stock has higher alpha?
which stock has higher correlation with the market?

Problem-statement: Discuss the questions, no analytical solution required.