EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Portfolio Management

Q: The standard deviation of the rates of return is 0.20 for stock A and 0.12 for stock B.

The covariance between the returns of A and B is 0.0096. The correlation of the rates of return between A and B is:

CORRECT ANSWER:

ⓓ **0.40**

Again this is a formula type question. You just need to remember the formula, then you will able to get the full marks.
Correlation is equal to the Covariance divided by the multiple of Standard deviation of the two stocks.
So r = 0.0096/(0.2*0.12)
r = 0.40

$$r = \frac{\operatorname{cov}(X,Y)}{s_x s_y}$$

CFA Society Hong Kong Candidate Services

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