




### Question #1 of 43

Question ID: 1551548

Which of the following is not a characteristic of a checklist approach as used in economic forecasting? A checklist approach:

- A) requires subjective judgment. 
- B) does not allow for changes in the model over time. 
- C) may not be able to model complex relationships. 

#### Explanation

A checklist approach actually allows for changes in the model over time.


(Module 1.2, LOS 1.e)

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### Question #2 of 43

Question ID: 1551546

When using economic indicators, examining the number of indicators increasing versus decreasing in a composite is *most accurately* referred to as a:

- A) lagging indicator. 
- B) diffusion index. 
- C) checklist assessment. 

#### Explanation

Diffusion indices provide a check on economic indicators by quantifying the number of increasing components in the composite indicator versus decreasing. Lagging economic indicators reflect recent past economic activity. Checklist assessments consider a wide range of economic data to assess an economy's future position.

(Module 1.2, LOS 1.e)

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### Question #3 of 43

Question ID: 1577668

During an economic recession, which of the following items will increase?

- A) Inflation. 

**B)** Interest rates.



**C)** Bond prices.



### Explanation

Bond prices increase during a recession as inflation decreases and interest rates decline (this causes bond prices to increase because they are inversely related to the change in interest rates).

(Module 1.3, LOS 1.f)

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### Question #4 of 43

Question ID: 1577660

Ashley Brown is an analyst who is trying to incorporate capital market expectations into her forecasts of risk and return for equity markets. Brown's short-term (one year) forecast for equity returns appears inconsistent with her forecast for three-year returns. Brown's forecasts are *best* described as being not:

**A)** spatially consistent.



**B)** intertemporally consistent.



**C)** cross-sectionally consistent.



### Explanation

Consistency over various time horizons is referred to as intertemporal consistency. Cross-sectional consistency refers to consistency across asset classes.

(Module 1.1, LOS 1.a)

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### Question #5 of 43

Question ID: 1577679

Which of the following is consistent with a likely weak economy in the future?

**A)** Monetary policy is restrictive, while fiscal policy is expansive.



**B)** Monetary policy is restrictive, and fiscal policy is restrictive.



**C)** Monetary policy is expansive, and fiscal policy is expansive.



### Explanation

When both fiscal and monetary policies are restrictive, the yield curve is downward sloping (i.e., it is inverted as short-term rates are higher than long-term rates), and the economy is likely to contract in the future.




(Module 1.4, LOS 1.i)

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### Question #6 - 9 of 43

Question ID: 1562883

Using only the provided analysis, Schadler's forecasted stock returns for Pirata over the next year should *most likely* be:

- A) less than last year's return. 
- B) approximately the same as last year's return. 
- C) more than last year's return. 

#### Explanation

High rates of growth in capital investment and economic growth are not necessarily linked to favorable equity returns. This may be the case if growth rates are already factored into equity prices. Pirata's stock returns were 19% last year, and it has attracted much investor interest. GDP growth is apparently slowing, as it peaked in the first quarter of last year. Thus, it is likely that Pirata's strong past growth rates are already factored into its equity prices and that Schadler's forecasted stock returns should be less than last year's 19%.

Further, because the growth rate of capital last year was 100% (it doubled) and is faster than the rate of economic growth (7.2% last year and declining), the return on capital may decrease. Thus, using only the provided analysis, the forecasted stock returns for Pirata over the next year should likely be less than last year's 19%.




(Module 1.2, LOS 1.d)

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### Question #7 - 9 of 43

Question ID: 1562884

Xu's economic forecasting approach is *best* described as:

- A) a checklist approach. 
- B) an economic indicators approach. 
- C) an econometric modeling approach. 

#### Explanation

One form of the econometric modeling approach for economic forecasting is the structural model, which is based on economic theory. The econometric modeling approach can incorporate many input variables and can be reused once it has been established. However, it can be complex and time-consuming to construct.




(Module 1.2, LOS 1.e)

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### Question #8 - 9 of 43

Question ID: 1562885

A disadvantage of Schadler's alternative forecasting approach is *most likely* that it can:

- A) be difficult to interpret. 
- B) appear to forecast better than it actually did. 
- C) only be used with one input variable at a time. 

#### Explanation

One form of the economic indicators approach is the diffusion index, which reflects several indicators. To predict turning points in an economy, the analyst examines if most of the variables forecast a recession or expansion in an economy. The economic indicators approach is easy to interpret and can be tailored to meet specific forecasting needs.

However, a disadvantage of the economic indicators approach is that it can appear to forecast past business cycles better than it actually did when the data were first released because indicators are subsequently revised frequently.

(Module 1.2, LOS 1.e)

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### Question #9 - 9 of 43

Question ID: 1562886

Xu's characterization of an economic slowdown is *least accurate* regarding:

- A) inflation. 
- B) business confidence. 
- C) short-term interest rates. 

#### Explanation

Xu states that slowdowns are characterized by inflation that is rising, declining business confidence, and low short-term interest rates.

A slowdown is characterized by, in part, inflation that is still rising as well as declining confidence. However, a slowdown is not characterized by low short-term interest rates, but by short-term interest rates that are at a peak.

(Module 1.3, LOS 1.f)

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### Question #10 of 43

Question ID: 1551556

During the initial recovery phase of the business cycle, which of the following items will be increasing?

- A) Stock prices. 
- B) Short-term interest rates. 
- C) Bond yields. 

#### Explanation

Stock prices generally increase in the initial recovery phase of the business cycle as the economy goes into an expansion. However, bond yields and short-term interest rates are still very low.

(Module 1.3, LOS 1.f)

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### Question #11 of 43

Question ID: 1551571

Which of the following is not an input to the Taylor rule?

- A) The discount rate. 
- B) The neutral rate. 
- C) The expected GDP. 

#### Explanation

The Taylor rule determines the target interest rate using the neutral rate, expected GDP relative to its long-term trend, and expected inflation relative to its targeted amount.

(Module 1.4, LOS 1.h)

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### Question #12 of 43

Question ID: 1577672

**Calculate** the short-term interest rate target given the following information.

Neutral rate	4%
Inflation target	2%
Expected inflation	4%
GDP long-term trend	3%
Expected GDP	5%

- A) 8%.
- B) 6%.
- C) 10%.



#### Explanation

$$\begin{aligned}n_{\text{target}} &= 4.0\% + 4.0\% + [0.5 \times (5\% - 3\%) + 0.5 \times (4\% - 2\%)] \\ &= 8.0\% + [1.0\% + 1.0\%] = 10.0\%\end{aligned}$$

The higher-than-targeted growth and higher-than-targeted inflation argue for a targeted interest rate of 10%. This rate hike is intended to slow the economy and inflation.

(Module 1.4, LOS 1.h)

### Question #13 of 43

Question ID: 1577671

Suppose that the Consumer Price Index is expected to change from 124 to 118. The asset class *most likely* to perform the best during such a period is:

- A) equity.
- B) high-quality bonds.
- C) real estate.



#### Explanation

The inflation index forecast suggests that deflation is expected. Nominal rate bonds should perform the best under that scenario because the purchasing power of the coupon payments would increase. Given the high-quality nature of the bonds, concerns about default are unlikely to dominate this greater purchasing power benefit.




(Module 1.3, LOS 1.g)

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**Question #14 of 43**

Question ID: 1577675

Which of the following regarding the use of monetary policy to stimulate growth or rein in inflation in an economy is *most accurate*?

- A) Only the direction of a change in interest rates is important. 
- B) Neither the direction of a change in interest rates nor the level of interest rates is important. 
- C) Both the direction of a change in interest rates and the level of interest rates are important. 

**Explanation**

Both the direction of a change in interest rates and the level of interest rates are important. If, for example, rates are increased to 4% to combat inflation but this is still low compared to the neutral rate of 6% in a country, then this rate may still be low enough to allow growth and inflation to continue.




(Module 1.4, LOS 1.h)

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**Question #15 - 17 of 43**

Question ID: 1551561

Fellows skipped a step in his technique for producing forecasts. He forgot to:

- A) assure that the underlying data is accurate. 
- B) identify a valuation model used in his analysis. 
- C) identify where he obtained his data. 

**Explanation**

Fellows's plan mirrors the seven-step process for formulating capital market expectations in every aspect except one: identifying the valuation model used in the analysis. Assuring the accuracy of data and identifying its source are important, but they would presumably fall under Step 3 and Step 5 of Fellows's process.

(Module 1.1, LOS 1.a)

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**Question #16 - 17 of 43**

Question ID: 1551562

Due to the decline in inflation and the low bond yields, Fellows should conclude that the economy is *most likely* in what stage of the business cycle?

- A) Slowdown. 
- B) Late expansion. 
- C) Initial recovery. 

#### Explanation

In general, inflation rises in the latter stages of an expansion and falls during a recession and initial recovery. Bond yields peak during a slowdown and fall during a recession; however, they bottom out during the initial recovery stage.




(Module 1.3, LOS 1.f)

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#### Question #17 - 17 of 43

Question ID: 1551563

Which of the following is *least accurate* regarding inflation?

- A) Low inflation affects the return on cash instruments. 
- B) Highly levered firms are most affected by declining inflation rates. 
- C) Declining inflation results in declining economic growth and asset prices. 

#### Explanation

Low inflation can be beneficial for equities if there are prospects for economic growth free of central bank interference. Declining inflation usually results in declining economic growth and asset prices. The firms most affected are those that are highly levered because they are most sensitive to changing interest rates. Low inflation does not affect the return on cash instruments.

(Module 1.3, LOS 1.g)

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#### Question #18 of 43

Question ID: 1551580

Suppose that currently, monetary policy is stimulative and fiscal policy is restrictive. Which of the following *most likely* describes the shape of the yield curve?

- A) Very steep. 
- B) Inverted. 
- C) Moderately steep. 

## Explanation

Stimulative monetary policy will result in lower short-term rates. Restrictive fiscal policy will slow economic activity, thus likely reducing rates in the future. The net result is a moderately steep yield curve. If both were stimulative, the yield curve would rise sharply and be very steep. An inverted yield curve is normally the result of restrictive monetary and fiscal policy.


(Module 1.4, LOS 1.i)

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## Question #19 of 43

Question ID: 1577669

An investment in high-yield bonds is likely to have the highest return in which of the following phases of the business cycle?

- A) Early expansion. 
- B) Contraction. 
- C) Initial recovery. 

## Explanation

As a recovery begins, bond yields should bottom out, and concerns about default should diminish. Both factors will lead to high-yield bonds performing well. A contraction will lead to concerns about default, and bond yields tend to rise in early expansion—both of these factors will limit the return to high-yield bonds.




(Module 1.3, LOS 1.f)

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## Question #20 of 43

Question ID: 1577663

A return index that tracks the Nasdaq Composite—a stock market index—could likely be subject to the problem of:

- A) survivorship bias, and hence, upward biased returns. 
- B) appraisal data, and hence, upward biased returns. 
- C) survivorship bias, and hence, downward biased returns. 

## Explanation

Survivorship bias can result when a return series is based on a stock index. The returns will be biased upward if the return calculation excludes firms that have been dropped from the index due to delisting; in other words, the index only includes the firms that survived.

Some assets are less liquid, such as real estate; therefore, appraisal data is used as an alternative. Appraised values are usually less volatile than actual values, which results in measured volatilities being downward biased. The items comprising the Nasdaq Composite are generally more liquid, so they would not likely be subject to the problem of appraisal data.

(Module 1.1, LOS 1.b)

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### Question #21 of 43

Question ID: 1606706

**Calculate** the short-term interest rate target given the following information.

Neutral rate	4%
Inflation target	2%
Expected inflation	5%
GDP long-term trend	3%
Expected GDP	1%

A) 4.5%



B) 9.5%



C) 6.5%



#### Explanation

$$\begin{aligned}n_{\text{target}} &= 4.0\% + 5.0\% + [0.5 \times (1\% - 3\%) + 0.5 \times (5\% - 2\%)] \\ &= 9.0\% + [-1.0\% + 1.5\%] = 9.5\%\end{aligned}$$

The weak projected economic growth calls for cutting interest rates. If inflation were not a consideration, the target interest rate would be 1% lower than the neutral rate. However, the higher projected inflation overrides the growth concern, and the nominal target rate is higher than the nominal neutral rate of  $4\% + 5\% = 9\%$ .

(Module 1.4, LOS 1.h)

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### Question #22 of 43

Question ID: 1577677

Which of the following is consistent with a flat yield curve?

- A) Monetary policy is expansive, while fiscal policy is restrictive. ✘
- B) Monetary policy is restrictive, and fiscal policy is restrictive. ✘
- C) Monetary policy is restrictive, while fiscal policy is expansive. ✔

#### Explanation

If monetary policy is restrictive while fiscal policy is expansive, the yield curve will be flat.

(Module 1.4, LOS 1.i)

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### Question #23 of 43

Question ID: 1577661

To forecast equity returns, an analyst examines historical returns from several countries. However, a few of the countries previously in the database were removed due to political changes. The problem represented here is *best* described as:

- A) nonstationary data. ✘
- B) survivorship bias. ✔
- C) ex post/ex ante dissonance. ✘

#### Explanation

The removed countries experiencing political changes likely had low equity returns compared to the remaining countries. Therefore, the database might bias the return on equity markets as a result of including only the survivors. Ex post/ex ante dissonance would not be the best answer because there is no ex post data for the countries removed. Nonstationary data is an inappropriate answer because the data was not just potentially different, but it was dropped from the database entirely.

(Module 1.1, LOS 1.b)


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### Question #24 of 43

Question ID: 1577664

Which of the following is *most* representative of an exogenous economic shock?

- A) Ongoing expansionary fiscal policy by the federal government, leading to higher inflation and interest rates. ✘
- B) Anticipated loose monetary policy by a country's central bank, leading to inflation and to depreciation in the country's currency. ✘

- C) A hurricane hitting the Gulf of Mexico, resulting in the shutdown of many oil wells and refineries and to higher oil prices. 

### Explanation

An exogenous shock is something that occurs outside the normal course of an economy, such as a natural disaster or unanticipated government policy. The shock is unanticipated and is not part of a trend, as would be characterized by ongoing monetary or fiscal policy.




(Module 1.2, LOS 1.c)

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### Question #25 of 43

Question ID: 1577676

Suppose that the economy is expected to grow at its long-term trend rate, target inflation is 2%, the inflation index is expected to increase by 3%, and the central bank real neutral short-term interest rate is 1%. The target nominal short-term interest rate should be *closest* to:

- A) 3.5%   
B) 4.5%   
C) 6.0% 

### Explanation

Because the real neutral rate is 1% and expected inflation is 3%, the adjustment will be made to the nominal 4% short-term rate. Given that GDP is growing at its long-term trend, this will not impact the adjustment using the Taylor rule. With inflation at 3% and target inflation at 2%, the central bank will increase interest rates by half of the difference, resulting in a nominal target rate of 4.5%.




(Module 1.4, LOS 1.h)

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### Question #26 of 43

Question ID: 1577674

Which of the following would indicate the *greatest* stimulation of economic growth?

- A) Tax receipts decline due to a new government policy.   
B) Tax receipts increase due to changes in the economy.   
C) Tax receipts increase due to a new government policy. 

### Explanation

Only changes in the deficit directed by government policy will influence growth. A tax cut, which would result in lower tax receipts over the short term, would stimulate the economy. Changes in the deficit that occur naturally over the course of the business cycle are not stimulative or restrictive. In an expanding economy, deficits will decline because tax receipts increase and disbursements to the unemployed decrease. The opposite occurs during a recession.




(Module 1.4, LOS 1.h)

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### Question #27 of 43

Question ID: 1551547

Which of the following is not a characteristic of economic indicators as used in economic forecasting? Economic indicators:

- A) are difficult to understand and interpret. 
- B) have an effectiveness that has been verified by academic research. 
- C) can be adapted for specific purposes. 

#### Explanation

Economic indicators are actually easy to understand and interpret.

(Module 1.2, LOS 1.e)

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### Question #28 of 43

Question ID: 1577670

Which investment or investment combination would *most likely* perform the worst during deflationary periods?

- A) Real estate wholly owned. 
- B) Real estate financed with debt. 
- C) Corporate bonds. 

#### Explanation

Deflation reduces the value of investments financed with debt. In the case of real estate, if the property is levered with debt, losses in its value lead to steeper declines in the investor's equity position. As a result, investors flee in an attempt to preserve their equity, and prices fall further. Bond prices will rise during deflationary periods when inflation and interest rates are declining.

Another way to think of it is that the value of debt (as an asset) rises during deflation due to fixed receipts during lower prices, leading to greater purchasing power. However, this scenario has debt as a liability (fixed payments during lower prices). Therefore, an increase in the value of a liability would be a loss to the investment, leading to a worsening of performance.

(Module 1.3, LOS 1.g)

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### Question #29 of 43

Question ID: 1551557

Which phase of the business cycle is characterized by rising stock prices but increased investor nervousness?

- A) Slowdown. 
- B) Initial recovery. 
- C) Late expansion. 

#### Explanation

The late expansion phase of the business cycle is characterized by high confidence and employment, increases in inflation, rising bond yields, and rising stock prices. Investor nervousness increases risk during this period. The central bank also limits the growth of the money supply.




(Module 1.3, LOS 1.f)

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### Question #30 of 43

Question ID: 1577667

In the early expansion phase of the business cycle, stock prices are:

- A) stagnant, as they are in the later stages of an expansion. 
- B) rising at a faster rate than they are in the later stages of an expansion. 
- C) rising at a slower rate than they are in the later stages of an expansion. 

#### Explanation

In the early expansion phase of the business cycle, stock prices are increasing. This is due to the fact that sales are increasing, but input costs will be fairly stable. Labor will not ask for wage increases because unemployment is still high. Idle plant and equipment will be pushed into service at little cost. Further, firms usually emerge from recession leaner because they have shed their wasteful projects and excessive spending. Later on in the expansion, the growth in earnings and stock returns slows because input costs start to increase. Interest rates will also increase during late expansion, which is a further negative for stock valuation.




(Module 1.3, LOS 1.f)

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### Question #31 of 43

Question ID: 1580627

Abaslovia, a developing country, has pegged its exchange rate to the currency of a developed country. Which of the following is *most likely* concerning the relationship between the two countries? Abaslovia will have an interest rate:

- A) greater than that of the developed country. 
- B) less than that of the developed country. 
- C) equal to that of the developed country. 

#### Explanation

Though the currency has been pegged, the developing country still has the risk of the peg failing. The interest rate should reflect that risk; thus, Abaslovia's interest rate should be higher than that of the developed country.




(Module 1.4, LOS 1.j)

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### Question #32 of 43

Question ID: 1577659

Which of the following regarding the formulation of capital market expectations is *least accurate*? An analyst should:

- A) vary his assumptions when interpreting data and drawing conclusions. 
- B) consider the investor's tax status, allowable asset classes, and time horizon. 
- C) investigate assets' historical performance and their determinants. 

#### Explanation

In the fifth step of the formulation of capital market expectations, the analyst should use a consistent set of assumptions when interpreting data and drawing conclusions.




(Module 1.1, LOS 1.a)

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### Question #33 of 43

Question ID: 1551544

Which of the following is *least likely* to be considered an exogenous shock?

- A) Strong economic recovery following a slow recession. 
- B) Political tensions arising between two neighboring countries. 
- C) Discovery of a new natural resource to be used in production. 

#### Explanation

Normal business cycle activity is not considered exogenous since the activity is built into asset prices. The other items are considered exogenous in that they arise outside of the normal economic cycle.




(Module 1.2, LOS 1.c)

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### Question #34 of 43

Question ID: 1577665

Which of the following statements *least likely* represents a scenario from an exogenous shock?

- A) OPEC not being able to agree on production levels, leading to increased uncertainty in global markets and increased oil prices. 
- B) Political unrest in the Middle East, leading to an unexpected decrease in oil production, increased oil prices, decreased consumer spending, increased unemployment, and a slowed economy. 
- C) A country defaults on its debt payments, thereby causing the country's currency to lose value and forcing the central bank to take measures to stabilize the banking system and the economy. 

#### Explanation

The OPEC meeting and probable outcomes could be anticipated and already factored into current oil prices, leading to the least severe outcome of the answer choices. Exogenous shocks usually lead to economic slowdowns, as in the case of an oil shock leading to higher prices, inflation, reduced consumer spending, increased unemployment, and a slowing economy. A reduction in oil prices could be caused by a weak global economy with weak demand for oil, or an oversupply of oil in the global market. This would reduce the price of oil and boost the economy, potentially overheating it—which causes high inflation and increased interest rates that ultimately slow the economy. In a financial crisis, the result is usually characterized by banks becoming vulnerable and requiring action by the central bank to stabilize the banking system and economy by increasing liquidity and lowering interest rates.

(Module 1.2, LOS 1.c)

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### Question #35 of 43

Question ID: 1577678

Which of the following is consistent with a steeply upwardly sloping yield curve?

- A) Monetary policy is expansive, and fiscal policy is expansive.
- B) Monetary policy is expansive, while fiscal policy is restrictive.
- C) Monetary policy is restrictive, and fiscal policy is restrictive.

#### Explanation

When both fiscal and monetary policies are expansive, the yield curve is sharply, upwardly sloping (i.e., short-term rates are lower than long-term rates), and the economy is likely to expand in the future.

(Module 1.4, LOS 1.i)

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### Question #36 of 43

Question ID: 1551581

Which of the following would indicate that a country is less affected by global events? The country is:

- A) small and has an undiversified economy.
- B) small and has a diversified economy.
- C) large and has a diversified economy.

#### Explanation

Larger countries with diverse economies are less affected by events in other countries. Small countries with undiversified economies are more susceptible to global events.




(Module 1.4, LOS 1.j)

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### Question #37 of 43

Question ID: 1551545

An analyst has accurately estimated a real growth rate of 3% in his discounted cash flow model by examining the growth of the economy. Population growth is expected to be 1%, labor force participation is expected to grow by 0.5% and capital expenditures are expected to grow by 1%. Which of the following *best* describes the analyst's estimate of growth? The analyst:

- A) has not accounted for inflation in the forecast. 
- B) is forecasting unrealistic growth. 
- C) is anticipating technological progress. 

#### Explanation

Total factor productivity, such as technological progress, can reasonably explain the differential between the inputs to economic growth and the analyst's growth rate in the discounted cash flow model. (Inflation is not a concern since the analyst is working with real numbers.)




(Module 1.2, LOS 1.d)

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### Question #38 - 41 of 43

Question ID: 1562878

In his determination of the expected return for high-dividend yield U.S. stocks, Gallagher's analysis *most likely* suffers from:

- A) intertemporal inconsistency only. 
- B) cross-sectional inconsistency only. 
- C) both intertemporal inconsistency and cross-sectional inconsistency. 

#### Explanation

Gallagher uses the Gordon (constant) growth dividend discount model to back out the expected return for high-dividend yield U.S. stocks over the next year. However, the Gordon (constant) growth dividend discount model assumes an infinite time horizon, which results in intertemporal inconsistency between the estimate for the expected return over the next year and the model used to estimate it.

Gallagher's analysis does not appear to suffer from cross-sectional inconsistency. He uses data for high-dividend yield U.S. stocks, which will be value-oriented stocks, to estimate the expected return for a portfolio of value stocks.

(Module 1.1, LOS 1.a)

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### Question #39 - 41 of 43

Question ID: 1562879

Using Gallagher's characterization of Brassington's analysis, Brassington's forecasts are *best* described as:

- A) efficient. 
- B) unbiased. 
- C) unfounded. 

#### Explanation

Gallagher states that Brassington's forecast error is usually quite small. This describes efficient forecasts.

Because Brassington's forecasts are usually overoptimistic, they are not best described as unbiased. Also, she is an experienced specialist who uses data and information from established financial providers and databases. Thus, her forecasts are not best described as unfounded.




(Module 1.1, LOS 1.a)

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### Question #40 - 41 of 43

Question ID: 1588834

Gallagher's analysis of stocks returns from Buranda *most likely* suffers from:

- A) risk that is biased upward. 
- B) the use of asynchronous data. 
- C) correlations that are biased upward. 

## Explanation

Many of the stocks in Buranda trade infrequently. This illiquidity results in risk and correlation estimates that are likely biased downward. Frequent data points such as the daily returns Gallagher uses are more likely to have missing or outdated values, referred to as asynchronous data.

Additionally, Gallagher specializes in macroeconomic forecasts for emerging markets in the eastern hemisphere. Buranda is located in the western hemisphere and likely has very different trading hours than stocks in emerging markets in the eastern hemisphere—which, again, results in correlation estimates that are likely biased downward from the use of asynchronous data.


(Module 1.1, LOS 1.b)

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## Question #41 - 41 of 43

Question ID: 1562881

Which of the following risks was *most likely* an exogenous shock in Nolandia?

- A) Risk 1. 
- B) Risk 2. 
- C) Risk 3. 

## Explanation

Exogenous shocks are unanticipated events that occur outside the normal course of an economy. Because the events are unanticipated, they are not built into market prices. The election of the new government that proposes to undo recent economic reforms (Risk 3) was likely unanticipated to some extent and is, therefore, likely considered exogenous.

In contrast, endogenous factors are likely anticipated and already built into market prices. An older population (Risk 1) and a high reliance on foreign borrowing (Risk 2) were likely anticipated and, therefore, were likely endogenous.



(Module 1.2, LOS 1.c)

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## Question #42 of 43

Question ID: 1577662

The use of appraisal data, relative to actual returns, results in correlations that are biased:

- A) upward and standard deviations that are biased upward. 
- B) downward and standard deviations that are biased downward. 

C) upward and standard deviations that are biased downward.



### Explanation

The use of appraisal data, relative to actual returns, results in correlations that are biased downward and standard deviations that are biased downward. The reason is that price fluctuations are masked by the use of appraised data.

(Module 1.1, LOS 1.b)

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### Question #43 of 43

Question ID: 1577666

Which of the following descriptions is *most likely* to be a characteristic of econometric models as used in economic forecasting? Econometrics:

A) may provide reasonably reliable output.



B) may be relatively easy and efficient to develop with the right inputs.



C) may be able to forecast turning points accurately.



### Explanation

The econometric models approach can result in models that are quite reliable, which include numerous variables that mimic real-life conditions.

The economic models approach is more likely to result in models that are complicated and time intensive to create. It very infrequently predicts turning points with accuracy.

(Module 1.2, LOS 1.e)