Learning Outcome Statements

The candidate should be able to:

- explain the notion that to affect market values, economic factors must affect one or more of the following: 1) default-free interest rates across maturities, 2) the timing and/or magnitude of expected cash flows, and 3) risk premiums
- explain the role of expectations and changes in expectations in market valuation
- explain the relationship between the long-term growth rate of the economy, the volatility of the growth rate, and the average level of real short-term interest rates
- explain how the phase of the business cycle affects policy and short-term interest rates, the slope of the term structure of interest rates, and the relative performance of bonds of differing maturities
- describe the factors that affect yield spreads between non-inflation-adjusted and inflation-indexed bonds
- explain how the phase of the business cycle affects credit spreads and the performance of credit-sensitive fixed-income instruments
- explain how the characteristics of the markets for a company's products affect the company's credit quality
- explain the relationship between the consumption hedging properties of equity and the equity risk premium
- explain how the phase of the business cycle affects short-term and long-term earnings growth expectations
- describe cyclical effects on valuation multiples
- describe the economic factors affecting investment in commercial real estate