Question #1 of 42

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.

Question #2 of 42

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) Discovery of a new natural resource to be used in production.

C) Political tensions arising between two neighboring countries.

Question #3 of 42

Question ID: 1577664

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

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

B) Anticipated loose monetary policy by a country's central bank, leading to inflation and to depreciation in the country's currency.

C) Ongoing expansionary fiscal policy by the federal government, leading to higher inflation and interest rates.

Question #4 of 42

Question ID: 1577667

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

A) rising at a faster rate than they are in the later stages of an expansion.

B) stagnant, as 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.

Question #5 of 42

Question ID: 1577673

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) 6.5%.

C) 9.5%.

Question #6 of 42

Question ID: 1577670

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

A) Corporate bonds.

B) Real estate wholly owned.

C) Real estate financed with debt.

Xavier Fellows works in the research department of Multinational, Inc. (Multinational), a large investment bank. He is tasked with forecasting economic conditions to support the bank's money managers and traders.

Fellows takes his work seriously and is considered to be an excellent forecaster. His economic forecasts are updated monthly and sent to most of Multinational's analysts and money managers. The analysts use Fellows's forecasts as the basis for their own research on specific securities or asset classes.

However, Fellows is concerned that his forecasts are not accurate enough. In an effort to avoid making mistakes, Fellows follows a detailed process to develop accurate and usable forecasts. Fellows hopes that this process will help him avoid some of the common problems of forecasts. Here is his system:

1. Establish a benchmark for market expectations. Multinational serves thousands of clients with different investment goals and constraints, and Fellows knows that analysts will need the different benchmarks for various different types of investors.
2. Look at the historical returns of numerous asset classes to act as a check on forecasts for each asset class.
3. Assemble data on historical returns and valuations for all relevant asset classes, considering potential biases, adjusting the numbers to account for different calculation methods, and ensuring that data definitions match those used by the company that collected the data.
4. Interpret the data. Fellows uses his years of experience to extrapolate that data into growth and valuation assumptions for each asset class. This step is the most subjective.
5. Distill assumptions into top-down forecasts, detailing the assumptions and methods for interpreting historical data in the event that individual analysts want to use data to create their own industry-specific forecasts.
6. Monitor performance. If Fellows's forecasts prove to be inaccurate, he works to improve his models.

This month's forecast dwells heavily on inflation projections and their expected effect on the returns of different asset classes. Fellows projects a decline in inflation and predicts that bond yields have bottomed out.

Question #7 - 9 of 42

Question ID: 1551561

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

A) identify where he obtained his data.

B) identify a valuation model used in his analysis.

C) assure that the underlying data is accurate.

Question #8 - 9 of 42

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) Late expansion.

B) Slowdown.

C) Initial recovery.

Question #9 - 9 of 42

Question ID: 1551563

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

A) Highly levered firms are most affected by declining inflation rates.

B) Low inflation affects the return on cash instruments.

C) Declining inflation results in declining economic growth and asset prices.

Question #10 of 42

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 a new government policy.

C) Tax receipts increase due to changes in the economy.

Question #11 of 42

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) can be adapted for specific purposes.

C) have an effectiveness that has been verified by academic research.

Question #12 of 42

Question ID: 1577679

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

A) Monetary policy is restrictive, and fiscal policy is restrictive.

B) Monetary policy is restrictive, while fiscal policy is expansive.

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

Question #13 of 42

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) equal to that of the developed country.

B) less than that of the developed country.

C) greater than that of the developed country.

Question #14 of 42

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) ex post/ex ante dissonance.

B) nonstationary data.

C) survivorship bias.

Question #15 of 42

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.

Question #16 of 42

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.

Question #17 of 42

Question ID: 1551548

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

A) does not allow for changes in the model over time.

B) requires subjective judgment.

C) may not be able to model complex relationships.

Question #18 of 42

Question ID: 1577668

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

A) Bond prices.

B) Interest rates.

C) Inflation.

Question #19 of 42

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) 6.0%.

B) 3.5%.

C) 4.5%.

Question #20 of 42

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) 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.

C) 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.

Daniel Gallagher is the chief economist for Gallagher Consultants. He is responsible for determining capital market expectations and recommending asset allocations for the firm's clients.

In his macroeconomic analysis of the U.S. economy, Gallagher concludes that the U.S. Federal Reserve will be increasing interest rates at an accelerating rate over the next year. As a result, many of Gallagher's clients are concerned about the near-term impact on their portfolio. One of the firm's clients, the Beck Hill Investment Firm, asks for assistance in determining the appropriate tactical changes to its U.S. value portfolio. Gallagher provides this by using data for high-dividend yield U.S. stocks. He applies the Gordon (constant) growth dividend discount model to back out the expected return for the U.S. value portfolio over the next year.

In addition to the United States, Gallagher specializes in macroeconomic forecasts for emerging markets, traditionally focusing on countries in the eastern hemisphere. However, his clients frequently ask for forecasts for developed markets, due to their stable growth rates and attractive valuations. In these cases, Gallagher refers his clients to the forecasts from Danielle Brassington, an experienced developed market specialist who uses data and information from established financial providers and databases. Gallagher recommends Brassington's forecasts because, although she is usually overoptimistic, the error from what is subsequently realized is quite small in most cases.

Gallagher uses a portfolio approach and intensive research to recommend asset allocations. He is currently examining the returns and risk for the emerging market of Buranda, located in the western hemisphere. Buranda recently privatized public industries and has had a stock market for only a few years. As a result, many of the stocks in Buranda trade infrequently. However, Gallagher is encouraged by the very favorable returns, risk, and correlations with other emerging stocks in his model portfolios. To have enough data to calculate these statistics with statistical confidence, Gallagher uses daily returns.

One of the most promising emerging markets Gallagher follows is Nolandia. Nolandia's advantages include

- an educated and skilled work force, and
- a diversified economy.

Risks include

- an older population,
- a high reliance on foreign borrowing,
- a newly elected government that proposes to undo recent economic reforms.

Question #21 - 24 of 42

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.

Question #22 - 24 of 42

Question ID: 1562879

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

A) efficient.

B) unbiased.

C) unfounded.

Question #23 - 24 of 42

Question ID: 1562880

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.

Question #24 - 24 of 42

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.

Question #25 of 42

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) real estate.

B) high-quality bonds.

C) equity.

Question #26 of 42

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) Moderately steep.

B) Very steep.

C) Inverted.

Question #27 of 42

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 be able to forecast turning points accurately.

B) may provide reasonably reliable output.

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

Question #28 of 42

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) Initial recovery.

B) Early expansion.

C) Contraction.

Question #29 of 42

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) large and has a diversified economy.

C) small and has a diversified economy.

Question #30 of 42

Question ID: 1551557

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

A) Late expansion.

B) Initial recovery.

C) Slowdown.

Maggie Schadler is an emerging market analyst for Hunt Asset Management (HAM). HAM uses economic growth analysis when formulating capital market expectations for its individual and institutional clients' portfolios. Shu Xu is her research assistant and is a graduate student in finance.

One of the countries Schadler is investigating is the emerging market of Pirata. With its stock returns of 19% last year, Pirata has attracted much investor interest. As a result, Schadler is forecasting its stock returns over the next year for HAM's clients. Until a few years ago, Pirata had low levels of technology applied to its capital and labor. Increasingly, however, its use of technology has expanded, and productivity has increased with GDP growth peaking in the first quarter of last year at 7.2%, on an annual basis. Further, foreign capital inflows into Pirata's stock market doubled last year due in part to government reforms that made the investment climate more favorable.

To forecast the future economic growth of the markets that HAM currently recommends, Xu uses a structural model based on economic theory that uses several variables from each market, including fundamental valuations, currency values, central bank interest rates, past GDP growth, and government spending. In their annual review of current operations, Xu asks Schadler to critique his forecasting approach and suggest alternatives for consideration. Schadler states that the advantage of Xu's structural model is that it can incorporate many input variables and can be reused once it has been established. However, Schadler describes how Xu's approach can be complex and time-consuming to construct.

Schadler offers an alternative economic forecasting approach to Xu, which is simpler and has data inputs that are often readily available from third parties. She explains that using this approach, a diffusion index can be created to predict turning points in an economy—and that this approach can be tailored to meet specific forecasting needs.

Schadler asks Xu to investigate the emerging market of Kingsland because several HAM clients have expressed an interest in investing there. Xu researches the business cycle of Kingsland to determine its attractiveness as an investment. Xu states that he believes it is likely that Kingsland is in an economic slowdown because slowdowns are characterized by inflation that is rising, declining business confidence, and low short-term interest rates. Schadler replies that Xu has misstated one of the characteristics of an economic slowdown.

Question #31 - 34 of 42

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.

Question #32 - 34 of 42

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.

Question #33 - 34 of 42

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.

Question #34 - 34 of 42

Question ID: 1562886

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

A) inflation.

B) business confidence.

C) short-term interest rates.

Question #35 of 42

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, downward biased returns.

B) appraisal data, and hence, upward biased returns.

C) survivorship bias, and hence, upward biased returns.

Question #36 of 42

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) Neither the direction of a change in interest rates nor the level of interest rates is important.

B) Both the direction of a change in interest rates and the level of interest rates are important.

C) Only the direction of a change in interest rates is important.

Question #37 of 42

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) intertemporally consistent.

B) spatially consistent.

C) cross-sectionally consistent.

Question #38 of 42

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.

Question #39 of 42

Question ID: 1577677

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

A) Monetary policy is restrictive, and fiscal policy is restrictive.

B) Monetary policy is expansive, while fiscal policy is restrictive.

C) Monetary policy is restrictive, while fiscal policy is expansive.

Question #40 of 42

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.

Question #41 of 42

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) investigate assets' historical performance and their determinants.

C) consider the investor's tax status, allowable asset classes, and time horizon.

Question #42 of 42

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) 10%.

C) 6%.