Capital Market Expectations

共享题干题

【题干】Neshie Wakuluk is an investment strategist who develops capital market expectations for an investment firm that invests across asset classes and global markets. Wakuluk started her career when the global markets were experiencing significant volatility and poor returns; as a result, she is now careful to base her conclusions on objective evidence and analytical procedures to mitigate any potential biases.Wakuluk's approach to economic forecasting utilizes a structural model in conjunction with a diffusion index to determine the current phase of a country's business cycle. This approach has produced successful predictions in the past, thus Wakuluk has high confidence in the predictions. Wakuluk also determines whether any adjustments need to be made to her initial estimates of the respective aggregate economic growth trends based on historical rates of growth for Countries X and Y (both developed markets) and Country Z (a developing market). Exhibit 1 summarizes Wakuluk's predictions:

Exhibit 1 Prediction for Current Phase of the Business Cycle		
Country X	Country Y	Country Z
Initial Recovery	Contraction	Late Upswing

Wakuluk assumes short-term interest rates adjust with expected inflation and are procyclical. Wakuluk reviews the historical short-term interest rate trends for each country, which further confirms her predictions shown in Exhibit 1.Wakuluk decides to focus on Country Y to determine the path of nominal interest rates, the potential economic response of Country Y's economy to this path, and the timing for when Country Y's economy may move into the next business cycle. Wakuluk makes the following observations:Observation 1 Monetary policy has been persistently loose for Country Y, while fiscal policies have been persistently tight.Observation 2 Country Y is expected to significantly increase transfer payments and introduce a more progressive tax regime.Observation 3 The current yield curve for Country Y suggests that the business cycle is in the slowdown phase, with bond yields starting to reflect contractionary conditions.

1.【单项选择题】Wakuluk most likely seeks to mitigate which of the following biases in developing capital market forecasts?

A. Availability

B. Time period

C. Survivorship

参考答案：A

【莽学解析】Wakuluk started her career when the global markets were experiencing significant volatility and poor returns. She is careful to base her conclusions on objective evidence and analytical procedures to mitigate potential biases, which suggests she is seeking to mitigate an availability bias. Availability bias is the tendency to be overly influenced by events that have left a strong impression and/or for which it is easy to recall an example.

2.【单项选择题】Wakuluk's approach to economic forecasting:

A. is flexible and limited in complexity.

B. can give a false sense of precision and provide false signals.

C. imposes no consistency of analysis across items or at different points in time.

参考答案：B

【莽学解析】Wakuluk's approach to economic forecasting utilizes both a structural model (e.g., an econometric model approach) and a diffusion index (e.g., a leading indicator-based approach). However, the two approaches have weaknesses: An econometric model approach may give a false sense of precision, and a leading indicator-based approach can provide false signals. Two strengths of the checklist approach are its flexibility and limited complexity, although one weakness is that it imposes no consistency of analysis across items or at different points in time.

3.【单项选择题】Wakuluk is most likely to make significant adjustments to her estimate of the future growth trend for which of the following countries?

A. Country Y only

B. Country Z only

C. Countries Y and Z

参考答案：B

【莽学解析】Country Z is a developing market. Less-developed markets are likely to be undergoing more rapid structural changes, which may require the analyst to make more significant adjustments relative to past trends.

4.【单项选择题】Based on Exhibit 1 and Wakuluk's assumptions about short-term rates and expected inflation, short-term rates in Country X are most likely to be:

A. low and bottoming.

B. approaching a peak.

C. above average and rising.

参考答案：A

【莽学解析】Country X is predicted to be in the initial recovery phase of the business cycle, which suggests short-term (money market) rates are low or bottoming. Inflation is procyclical. It accelerates in the later stages of the business cycle when the output gap has closed, and it decelerates when a large output gap puts downward pressure on wages and prices, which often happens during a recession or the early years afterward. As long as short-term interest rates adjust with expected inflation, cash is essentially a zero-duration, inflation-protected asset that earns a floating real rate, which is typically procyclical. Wakuluk assumes short-term interest rates adjust with expected inflation and are procyclical. Thus, short-term rates are most likely to be low and bottoming if Country X is in the initial recovery phase of the business cycle.

5.【单项选择题】Based on Exhibit 1, what capital market effect is Country Z most likely to experience in the short-term?

A. Cyclical assets attract investors.

B. Monetary policy becomes restrictive.

C. The yield curve steepens substantially.

参考答案：B

【莽学解析】Wakuluk's model predicts that Country Z's business cycle is currently in the late upswing phase. In the late upswing phase, interest rates are typically rising as monetary policy becomes more restrictive. Cyclical assets may underperform, whereas the yield curve is

expected to continue to flatten.

6.【单项选择题】Based on Observation 1, fiscal and monetary policies in Country Y will most likely lead to:

A. low nominal rates.

B. high nominal rates.

C. either high or low nominal rates.

参考答案：C

【莽学解析】Monetary policy has been persistently loose for Country Y, while fiscal policies have been persistently tight. With this combination of persistently loose and tight policies, the impact could lead to higher or lower nominal rates (typically labeled as mid-nominal rates).

7.【单项选择题】Based on Observation 2, what impact will the policy changes have on the trend rate of growth for Country Y?

A. Negative

B. Neutral

C. Positive

参考答案：C

【莽学解析】Country Y is expected to significantly increase transfer payments and introduce a more progressive tax regime. Both of these changes are pro-growth government policies and should have a positive impact on the trend rate of growth for a business cycle that is in slowdown or contraction. Transfer payments help mitigate fluctuations in disposable income for the most vulnerable households, while progressive tax regimes imply that the effective tax rate on the private sector is pro-cyclical (i.e., rising as the economy expands and falling as the economy contracts).

8.【单项选择题】Based on Observation 3, Wakuluk most likely expects Country Y's yield curve in the near term to:

A. invert.

B. flatten.

C. steepen.

参考答案：C

【莽学解析】The current yield curve for Country Y suggests that the business cycle is in the slowdown phase (curve is flat to inverted), with bond yields starting to reflect contractionary conditions (i.e., bond yields are declining). The curve will most likely steepen near term, consistent with the transition to the contractionary phase of the business cycle, and be the steepest on the cusp of the initial recovery phase.