1.06 Simulation Methods

Question 1
Given that continuously compounded returns are normally or approximately normally distributed, asset prices are:
A. normally distributed.
B. chi-square distributed.
C. lognormally distributed.

Question 2
A feature of Monte Carlo simulation is its ability to:
A. provide exact results.
B. incorporate "what-if" analysis.
C. explain cause-and-effect relationships.

Question 3
An analyst is determining the appropriate price for a complex call option on a bond. Monte Carlo simulation is *most appropriate* to use if the analyst:
A. requires an accurate result.
B. can only use estimates for the inputs.
C. is unsure of the probability distributions for the inputs.

Question 4
Which of the following distributions is *most appropriate* for modeling a stock's price?
A. Normal
B. Lognormal
C. Multivariate

Question 5
Prices for a volatile asset *most likely* follow a(n):
A. F-distribution.
B. binomial distribution.
C. lognormal distribution.

Question 6
If a random variable *X* is lognormally distributed, its natural log *most likely* follows a:
A. normal distribution.
B. lognormal distribution.
C. chi-squared distribution.