
CFRM 462: Introduction to Computational Finance and Financial Econometrics
 Homework 1

1. $\frac{27-31.18}{31.18} = -.134$

a) If you invested \$10,000 then would lose $10,000 * -.134$ and your investment would be worth $10,000 * (1-.134) = \$ 8659.39$

2. $\ln(27) - \ln(31.18) = -.144$

a) $e^{-.144} - 1 = -.134$

3. $(1 - .134)^{12} - 1 = - 0.822$

4. $-.144 * 12 = -1.727$

5. $R_t(12) = \frac{30.51-31.18}{31.18} = -0.0214$

a) The investment would be worth $10,000 *(1-.0214) = 9785.11$. Compared to 3) the nominal amount is higher.

6. $\ln(30.51) - \ln(31.18) = -.0217$ The cc return amount is higher than 4) because the ending balance is higher and it does not assume a monthly decline of 13.4%

a) $e^{-.0217} - 1 = -0.0214$

PART II & III refer to supporting files