QF603 HOMEWORK2　WANGHAOTONG

Q1.a If Ln(Operating Margin) is 0 [hypothetically speaking, this is close to impossible in practice], what is predicted Ln(EPS/price) for a firm in the wholesale trade industry?
Answer:We can tell from the table directly, the answer is -3.6332

Q1.b If Ln(Operating Margin) is 0, what is predicted Ln(EPS/price) for a firm in the services industry?
Answer:if ln(operating margin)=0,then operating margin(x)=1
The answer is -3.6332+(-0.2630)=-3.8962

Q1.c What is the effective ‘‘y-intercept’’ for a firm in the Services industry?

Answer: The answer is -3.6332+(-0.2630)=-3.8962

Q1.d What is the effective “y-intercept” for a fifirm in the Mining industry?
Answer: The answer is -3.6332+(-0.045) = -3.6782

Q2.a For a 1 unit increase in ln operating margin, by how much does predicted Ln(E/P ratio) change by for a firm in the omitted control group (Wholesale Trade industry)
Answer:0.2399

Q2.b For a 1 unit increase in ln operating margin, by how much does predicted Ln(E/P ratio) change by for a firm in the Mining industry?
Answer:0.3526+0.2399 = 0.5925

Q2.c What is the effective slope coefficient for a firm in the mining industry?
Answer:0.3526+0.2399 = 0.5925

Q2.d Assume that ln operating margin = 1. What is predicted Ln(E/P ratio) for a firm in the Retail Trade industry?
Answer = -3.6108+(-0.2019)+(0.2399-0.0927)*1 = -3.8199+0.1472=-3.6655