**Question 7.1**

Describe a situation or problem from your job, everyday life, current events, etc., for which exponential smoothing would be appropriate. What data would you need? Would you expect the value of α(the first smoothing parameter) to be closer to 0 or 1, and why?

We use a type of exponential smoothing model very frequently at my job. Looking at the historical value of an asset, the moving average of that asset is a smoothed graph of this asset’s price action. Necessary data would be the asset’s price history, historical buying/selling volume, implied volatility, and significant event (earnings reports) dates. We would expect the value of α to be closer to 1 as there is not a lot of expected randomness in this model. An estimated value of α might be .7 for this model.