

Quiz 05 for Sept 12

Started: Sep 8 at 9:56pm

Quiz Instructions

Complete this quiz by 11:00 a.m. on Monday September 12.



Question 1

1 pts

Consider the 2-period, 6-state example in Note09 Multiperiod Complete Markets, where a variable's first subscript refers to the date ($t=1$ or 2) and its second subscript refers to the state at that date ($s=2$ states at date 1 and $s=4$ states at date 2). Suppose $\pi_{11} = 0.8$, $\pi_{21} = 0.64$, and $\pi_{22} = \pi_{23} = 0.16$. $\hat{\pi}_{11} = 0.6$, $\hat{\pi}_{21} = 0.48$, and $\hat{\pi}_{22} = \hat{\pi}_{23} = 0.2$. The initial price of a security that pays 1 with certainty at date 1 equals 0.96 and the initial price of a security that pays 1 with certainty at date 2 equals 0.91. What is the value of the stochastic discount factor at date 2 in state 4, m_{24} ?

State your answer to 2 decimal places, e.g., 1.24.



Question 2

1 pts

Assume the same information in the previous question. Let c_{ts} be the cashflow that a particular security pays at date t in state s , and suppose that these cashflows in the 6 states are $c_{11} = 3$, $c_{12} = 2$, $c_{21} = 4$, $c_{22} = 2$, $c_{23} = 2$, and $c_{24} = 1$. What is the no-arbitrage initial price of this security?

State your answer to 2 decimal places, e.g., 4.27.



Question 3

1 pts

Suppose that residents of a particular country begin making more of their everyday transactions using private cryptocurrencies, rather than the (fiat) currency issued by their country's central bank. If the central bank does not change its monetary policy, residents' increased use of cryptocurrencies

- ☐ will have an inflationary effect on the economy.
- ☐ will have no effect on the economy.
- ☐ will increase the demand for high powered money.
- ☒ will have a contractionary effect on the economy.



Question 4

1 pts

If the Federal Reserve pays higher interest on bank reserves, its immediate effect is to

- ☐ put upward pressure on the federal funds rate.
- ☒ decrease the supply of high powered money.
- ☐ have an expansionary (inflationary) effect on the economy.
- ☐ reduce the yields on Treasury securities.



Question 5

1 pts

Ask one or more questions or make one or more comments on the material covered in the notes for this class.

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I am wondering if those government's move will effect the utility of people.

p



| 13 words |



Quiz saved at 6:11pm

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