## Quiz 03 for Aug 31

Started: Aug 29 at 4:30pm

## **Quiz Instructions**

Complete this guiz by 11:00 a.m. on Wednesday August 31, 2022.

Question 1	1 pts
A stochastic discount factor, <i>m</i> , will tend to be	
greater during economic recessions.	
O less than the risk-free discount factor, on average.	
○ the same for all individuals.	
○ smaller for more risky assets.	

Question 2	1 pts
The stochastic discount factor (SDF) for discounting assets' nominal cashflor	ws
is always less than the SDF used to discount real cashflows.	
<ul> <li>is the SDF used to discount real cashflows divided by 1 plus the inflation rate.</li> </ul>	
is the same as the SDF used to discount real cashflows.	
is the SDF used to discount real cashflows multiplied by 1 plus the inflation rate.	

Question 3 1 pts

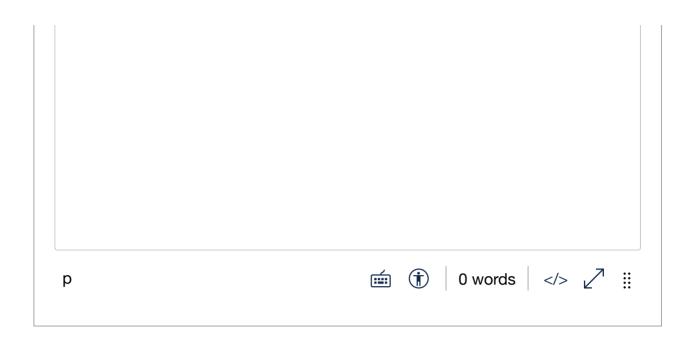
There are two end of period states: 1) economic expansion; 2) economic contraction. There are two assets: 1) a default- free bond that pays 1 in both states; 2) a default-risky bond that pays 1 if there is an economic expansion but

defaults and pays 1/2 if there is an economic contraction. If the default-free price is 1 and the default-risky bond's price is 0.7, what is the state price $p_1$ pays 1 only in an expansion and what is the state price $p_2$ that pays 1 only in contraction?	that
$\bigcirc p_1 = 0.5 \text{ and } p_2 = 0.5.$	
$p_1 = 0.4$ and $p_2 = 0.6$ .	
$\bigcirc p_1 = 1 \text{ and } p_2 = 0.5.$	
$\bigcirc p_1 = 0.3 \text{ and } p_2 = 0.7.$	
Question 4	1 pts
The probability of a recession is 0.2 and the state price that pays 1 only in a recession is 0.24. What is the value of the stochastic discount factor, <i>m</i> , in a recession?	



0.048

Ask at least 1 question or make at least 1 comment on the material Equilibrium Asset Valuation and Arbitrage and the Stochastic Discount Factor.



Quiz saved at 11:06pm

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