

Quiz 03 for Aug 31

Started: Aug 29 at 4:30pm

Quiz Instructions

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

Question 1

1 pts

A stochastic discount factor, m , will tend to be

- ☒ greater during economic recessions.
- ☐ 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 cashflows

- ☐ is always less than the SDF used to discount real cashflows.
- ☒ is the SDF used to discount real cashflows divided by 1 plus the inflation rate.
- ☐ 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 bond's price is 1 and the default-risky bond's price is 0.7, what is the state price p_1 that pays 1 only in an expansion and what is the state price p_2 that pays 1 only in the contraction?

☐ $p_1 = 0.5$ and $p_2 = 0.5$.

☒ $p_1 = 0.4$ and $p_2 = 0.6$.

☐ $p_1 = 1$ and $p_2 = 0.5$.

☐ $p_1 = 0.3$ 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, m , in a recession?

☐ 1.44

☐ 0.048

☒ 1.2

☐ 0.4

Question 5



1 pts

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




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Quiz saved at 11:06pm

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