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Question 1

Question Type: MultipleChoice

The bisection method can be used for solving $f(x)=0$ for a unique solution of x , when

Options:

- A- The function $f(x)$ is continuous and monotonic
- B- The function $f(x)$ is differentiable
- C- The function $f(x)$ is differentiable and we have an explicit expression for the derivative
- D- The function $f(x)$ is continuous

Answer:

A

Question 2

Question Type: MultipleChoice

When calculating the implied volatility from an option price we use the bisection method and know initially that the volatility is somewhere between 1% and 100%. How many iterations do we need in order to determine the implied volatility with accuracy of 0.1%?

Options:

A- 10

B- 100

C- 25

D- 5

Answer:

A

Question 3

Question Type: MultipleChoice

An option has value 10 when the underlying price is 99 and value 9.5 when the underlying price is 101. Approximate the value of the option delta using a first order central finite difference.

Options:

A- -4

B- 0.25

C- -0.5

D- -0.25

Answer:

D

Question 4

Question Type: MultipleChoice

Consider a binomial lattice where a security price S moves up by a factor u with probability p , or down by a factor d with probability $1 - p$. If we set $d > 1/u$ then which of the following will be TRUE?

Options:

A- The lattice will not recombine

- B- The probability of an up move will not be constant
- C- There will always be a downward drift in the lattice
- D- None of the above

Answer:

D

Question 5

Question Type: MultipleChoice

Exploring a regression model for values of the independent variable that have not been observed is most accurately described as...

Options:

- A- Estimation
- B- Regression
- C- Hypothesis testing
- D- Prediction

Answer:

D

Question 6

Question Type: MultipleChoice

In a multiple linear regression, the significance of R^2 can be tested using which distribution?

Options:

A- Normal distribution

B- Student's t distribution

C- F-distribution

D- Binomial distribution

Answer:

C

Question 7

Question Type: MultipleChoice

You want to test the hypothesis that a population parameter of a regression model is zero. Your alternative hypothesis is that $\beta \neq 0$. Denote by $SD(\hat{\beta})$ the estimated standard deviation of $\hat{\beta}$, and by $MEAN(\hat{\beta})$ the estimated mean of $\hat{\beta}$. Which test statistic is appropriate, and what is its distribution?

Options:

- A- test statistic = $SD(\hat{\beta})/MEAN(\hat{\beta})$, normal distribution
- B- test statistic = $MEAN(\hat{\beta})/SD(\hat{\beta})$, normal distribution
- C- test statistic = $SD(\hat{\beta})/MEAN(\hat{\beta})$, t distribution
- D- test statistic = $MEAN(\hat{\beta})/SD(\hat{\beta})$, t distribution

Answer:

D

Question 8

Question Type: MultipleChoice

Simple linear regression involves one dependent variable, one independent variable and one error variable. In contrast, multiple linear regression uses...

Options:

- A- One dependent variable, many independent variables, one error variable
- B- Many dependent variables, one independent variable, one error variable
- C- One dependent variable, one independent variable, many error variables
- D- Many dependent variables, many independent variables, many error variables

Answer:

A

Question 9

Question Type: MultipleChoice

You are investigating the relationship between weather and stock market performance. To do this, you pick 100 stock market locations all over the world. For each location, you collect yesterday's mean temperature and humidity and yesterday's local index return. Performing a regression analysis on this data is an example of...

Options:

- A- Simple time-series regression
- B- Multiple time-series regression
- C- Simple cross-section regression
- D- Multiple cross-section regression

Answer:

D

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