EASY   INTERMEDIATE   HARD

CFA® SAMPLE QUESTION – LEVEL I

Quantitative Methods

Q: For a hypothesis test with a probability of a Type II error of 65% and a probability of a Type I error of 8%.

Which of the following statement is Correct?

CORRECT ANSWER:

(a) **there is a 8% probability that the null hypothesis is actually true but will be rejected, and the probability of rejecting the null when it is false is 35%.**

Remember the definitions for both Type I and Type II errors! A type I error is rejecting the null hypothesis when it's true

The probability of rejecting a false null is {1- Probability of Type II] = [1-0.65] = 35%, which is call the power of the test.

CFA Society Hong Kong Candidate Services

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