EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Quantitative Methods

Q: Using hypothesized parameter values and a random number generator to study the behavior of certain asset returns is part of:

CORRECT ANSWER:

Ⓒ **Monte Carlo stimulation**

The statement in above describe Monte Carlo Stimulation

One usual way to employ a Monte Carlo simulation is to model possible movements of asset prices using Excel or a similar program. There are two components to an asset's price movements: drift, which is a constant directional movement, and a random input, representing market volatility.

By analyzing historical price data, you can determine the drift, standard deviation, variance and average price movement for a security. These are the building blocks of a Monte Carlo simulation.

CFA Society Hong Kong Candidate Services

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