Name:_______________________

Ag and Applied Econ 322

Prep for Last Exam

Part I. Multiple Choice Questions:

1) A leading indicator model is an example of:
   a) Technical analysis.
   b) Predicting profits from using options.
   c) Fundamental analysis.
   d) We did not talk about leading indicator models.

2) The current price of a T-bill futures contract is 98.75. Yesterday it was 98.85:
   a) Interest rates have gone up.
   b) Interest rates have gone down.
   c) The yield curve has flattened.
   d) Prices for T-bills would never be this high.

3) If the relative strength index in 98, then the market is:
   a) Overbought.
   b) Oversold.
   c) The relative strength index does not go that high.
   d) Not showing any momentum.

4) If I want to hedge the interest rate that I will have to pay on a 15- year mortgage when I buy a house in three months, I would:
   a) Buy a 90-day t-bill futures contract.
   b) Sell a 90-day t-bill futures contract.
   c) Buy a 15-year t-bond futures contract.
   d) Sell a 15-year t-bond futures contract.

5) If prices are trending higher and open interest is dropping each day, it is an indication that:
   a) The upward trend in price is likely to continue.
   b) The upward trend in price is coming to an end.
   c) Open interest does not have anything to do with a price trend.
   d) There is no such thing as open interest in futures markets.

6) Moving averages help a trader understand how much a given price will change when information changes, and how much of the price change can be captured.
   a) True.
   b) False.

7) The 90-day T-bill futures price changed from 98.50 to 98.00, and the 15 Year Bond futures price changed from 114-08 to 115-00. Both are for June delivery. This means:

a) The June yield curve just got steeper.
b) The June yield curve just got flatter.
c) It depends on which yield curve theory we believe.
d) We do not know what happened to the yield curve without knowing what happened to futures prices for other delivery months.

8) Price gaps always get filled.

a)True.
b)False.

9) I buy soybeans in Brazil with Brazilian currency (called Real), crush them and then sell soybean meal in Europe. To hedge my exchange rate risk I would:

a) Buy Brazilian Real and sell Euros.
b) Buy Euros and sell Brazilian Real.
c) I can’t hedge this transaction since none of it is in dollars.

10) List two problems associated with constructing trend lines.

1)

2)

Part II. <u>Short Answer</u>.

1) Give an example of a leading indicator model, and explain how I would use it.

2) Based on the graph below, has the US dollar gotten stronger or weaker relative to the Japanese Yen since April 1?