

Section 8 – 4 cont.

Stock Prices and Inflation

Exponential Regression

- $Y=ab^x$
- Stat -> Calc
- 0:ExpReg

- If the r value is closer to 1 then when we did linear regression, then an exponential curve fits the data better and might yield a better prediction of future values.

Example

- Use the data from 8-3, page.386
- Find the Curve that fits the data
- Is exp reg better than lin reg?

Expected Value

$$E = a_1 p_1 + a_2 p_2$$

Probability of inflation +
probability of deflation = 1

Example

- If bob knows that there is a 2% chance that deflation occurs over a 3 year period and if this happens his mutual fund will drop from \$10,000 to \$7,500 and he also knows that if inflation is present his account will be valued at \$13,500. What can he expect the value of his account to be in 3 years?

Homework

- P.395 TYS #1-8
- P.396 EYS #12-18