

END OF CHAPTER EXERCISES

Chapter 17 : Technical Trading Rules

Investments : Spot and Derivatives Markets

(Keith Cuthbertson, Dirk Nitzsche)

1. Broadly speaking, how do 'technical traders' differ from 'fundamental's traders'? Use the issue of predicting the spot-FX rate as an example.
2. What is a 'support level' for spot-FX and how is it used by speculators?
3. What is an exponentially weighted moving average EWMA forecast? If the current spot-rate $S_0 = 100$ and the previous day's EWMA forecast had been 90, the 'weight' is $\alpha = 0.9$, what would be your forecast for the spot rate tomorrow? Briefly comment.
4. Does the presence of noise traders automatically imply that asset prices will exhibit trends?
5. What is the purpose of a 'transfer function' in an artificial neural network ANN ?
6. What is 'overfitting' applied to artificial neural networks (ANN) ? Why is it a problem?
7. What is a momentum strategy?