ESD. 71 Recitations – Recitation 4
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Content

- General questions on class material
- Application portfolio
  - Discuss AP2 assignment and questions
  - Explain why we use exponential form as assumption for function in GBM model:

    From Taylor series expansion:

    $$e^r = \sum_{n=0}^{\infty} \frac{r^n}{n!} = 1 + r + \frac{r^2}{2!} + \frac{r^3}{3!} + \ldots \approx 1 + r, \ if \ \ r << 1$$

    Also, we often model price (or value) as $S(t) = S_0(1+r)^t$

    $$\Rightarrow \ S(t) = S_0(1+r)^t \approx S_0 e^{rt}$$

  - Show Best fit to data example to characterize uncertainty, extract trend form from data, and volatility parameter

- Exercises
  - 2.4 and show production function visualization Excel spreadsheet
  - 4.13 and if time, 4.3

Tasks

- Review AP2
- Review production function visualization spreadsheet to understand mechanics
- Review all exercises above