FIN 366: INVESTMENTS
CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 12:

1. Why do investors care about the overall health of the economy? Think specifically about our reward for bearing systematic risk.
2. We've discussed several measures that we use to determine the overall health of our economy (GDP, employment, inflation, interest rates, and sentiment). Be sure that you know the definitions of each. Why are they relevant? What do they tell us?
3. What's the difference between the *unemployment rate* and *initial jobless claims*?
4. How might we expect markets to react if the unemployment rate fell significantly, but less than investors expected?
5. How might we expect markets to react if the unemployment rate rose significantly, but less than markets expected?
6. The Fed must carefully balance inflation and unemployment. What is the relationship between the two? How might changing interest rates affect inflation and unemployment?
7. Why are surveys (i.e., consumer sentiment, ISM Manufacturing) important for our understanding about perceptions of the macroeconomy?
8. What makes the stock market in particular a powerful leading economic indicator over some of the other measures?
9. Why do we as investors want to be able to identify if we are at the height of or at the bottom of an economic cycle?
10. Why is it problematic to just use NAICS, SIC codes, or S&P 500 industry categories when classifying firms?
11. What are some examples of cyclical sectors? Defensive sectors?
12. What measure might classify a sector as cyclical or defensive?
13. Why might some industries perform better (or worse) in various states of the economy?

14. Does an industry's performance during previous downturns and expansions explain how it will fare in future downturns and expansions?
15. When should we adjust our portfolio to invest more in cyclical sector stocks? Defensive sector stocks?
16. Why might a conglomerate be difficult to classify into NAICS or SIC codes?
17. In which type of industries should we expect to see higher betas?