

CFA® SAMPLE QUESTION – LEVEL I**Quantitative Methods**

Q: Annual returns on small stocks have a population mean of 15% and a population standard deviation of 22%. Assuming that the returns are normally distributed, a 90% confidence interval on mean returns over a 5-year horizon is:

CORRECT ANSWER:

(a) -1.24% to 31.24%

With a known population standard deviation of returns and a normally distributed population, we can apply the z-distribution to find out the confidence interval.

The sample mean for a sample of 5 years will have a standard deviation of $22/(5^{1/2}) \Rightarrow 9.84\%$

A 90% confidence interval around the mean return of 15% is $15\% \pm 1.65(9.84\%) = -1.24\% \text{ to } 31.24\%$

Commonly used z – values for Confidence Intervals

Confidence Interval	z
90%	1.645
95%	1.96
98%	2.326
99%	2.576



**CFA Society Hong Kong
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Mr. Zap Cheng, CFA
Candidate Services
Committee



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