

2025 Level II Topic Outlines

Economics

LEARNING OUTCOMES

Currency Exchange Rates: Understanding Equilibrium Value

The candidate should be able to:

- calculate and interpret the bid–offer spread on a spot or forward currency quotation and describe the factors that affect the bid–offer spread
- identify a triangular arbitrage opportunity and calculate its profit, given the bid–offer quotations for three currencies
- explain spot and forward rates and calculate the forward premium/discount for a given currency
- calculate the mark-to-market value of a forward contract
- explain international parity conditions (covered and uncovered interest rate parity, forward rate parity, purchasing power parity, and the international Fisher effect)
- describe relations among the international parity conditions
- evaluate the use of the current spot rate, the forward rate, purchasing power parity, and uncovered interest parity to forecast future spot exchange rates
- explain approaches to assessing the long-run fair value of an exchange rate
- describe the carry trade and its relation to uncovered interest rate parity and calculate the profit from a carry trade
- explain how flows in the balance of payment accounts affect currency exchange rates
- explain the potential effects of monetary and fiscal policy on exchange rates
- describe objectives of central bank or government intervention and capital controls and describe the effectiveness of intervention and capital controls
- describe warning signs of a currency crisis

Economic Growth***The candidate should be able to:***

- compare factors favoring and limiting economic growth in developed and developing economies
- describe the relation between the long-run rate of stock market appreciation and the sustainable growth rate of the economy
- explain why potential GDP and its growth rate matter for equity and fixed income investors
- contrast capital deepening investment and technological progress and explain how each affects economic growth and labor productivity
- demonstrate forecasting potential GDP based on growth accounting relations
- explain how natural resources affect economic growth and evaluate the argument that limited availability of natural resources constrains economic growth
- explain how demographics, immigration, and labor force participation affect the rate and sustainability of economic growth
- explain how investment in physical capital, human capital, and technological development affects economic growth
- compare classical growth theory, neoclassical growth theory, and endogenous growth theory
- explain and evaluate convergence hypotheses
- describe the economic rationale for governments to provide incentives to private investment in technology and knowledge
- describe the expected impact of removing trade barriers on capital investment and profits, employment and wages, and growth in the economies involved