## Question #1 of 38

Question ID: 1458163

Hume Inc. announces fourth quarter earnings per share of $1.20, which is 15% higher than last year. Hume's earnings are equal to the consensus analyst forecast for the quarter. Assuming markets are efficient, the announcement will *most likely* cause the price of Hume's stock to:

**A)** decrease.

**B)** increase.

**C)** remain the same.

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## Question #2 of 38

Question ID: 1458198

Tom Edwin, CFA, states, "Individuals exhibit biases, such as loss aversion and herding, that result in observed pricing anomalies in financial markets. However, a strategy based on exploiting these anomalies will not earn positive abnormal returns over time." With regard to the efficient markets and behavioral finance views of market pricing, Edwin's statement is *most likely* consistent with:

**A)** neither behavioral finance nor informationally efficient markets.

**B)** behavioral finance, but not informationally efficient markets.

**C)** both behavioral finance and informationally efficient markets.

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## Question #3 of 38

Question ID: 1462886

The weak form of the efficient market hypothesis (EMH) implies that:

**A)** investors cannot achieve abnormal returns, on average, using technical analysis, after adjusting for transaction costs and taxes.

**B)** insiders, such as specialists and corporate board members, cannot achieve abnormal returns on average.

**C)** no one can achieve abnormal returns using market information.

## Question #4 of 38

Question ID: 1458172

The strong-form efficient market hypothesis (EMH) asserts that stock prices fully reflect which of the following types of information?

**A)** Market.

**B)** Public and private.

**C)** Public, private, and future.

## Question #5 of 38

Question ID: 1458170

Which of the following statements on the forms of the efficient market hypothesis (EMH) is *least* accurate?

**A)** The weak-form EMH assumes market prices reflect current public market information and expectations.

**B)** The strong-form EMH assumes market prices reflect all public and private information.

**C)** The semi-strong form EMH assumes market prices reflect all public information.

## Question #6 of 38

Question ID: 1458171

The statement, "Stock prices fully reflect all information from public and private sources," can be attributed to which form of the efficient market hypothesis (EMH)?

**A)** Weak-form EMH.

**B)** Semistrong-form EMH.

**C)** Strong-form EMH.

## Question #7 of 38

Question ID: 1458177

Which of the following statements about the efficient market hypothesis (EMH) is *most accurate*?

**A)** The weak form of the EMH maintains that current security prices fully reflect all past information.

**B)** The semistrong form of the EMH states that current security prices fully reflect all public and nonpublic information, both market and nonmarket.

**C)** The strong form of the EMH implies that no group of investors should be able to consistently achieve positive abnormal returns.

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## Question #8 of 38

Question ID: 1458181

Under the efficient market hypothesis (EMH), the major effort of the portfolio manager should be to:

**A)** achieve complete diversification of the portfolio.

**B)** follow a strict buy and hold strategy.

**C)** minimize systematic risk in the portfolio.

---

## Question #9 of 38

Question ID: 1458179

If the efficient markets hypothesis is true, portfolio managers should do all of the following EXCEPT:

**A)** Minimize transaction costs.

**B)** Spend more time working on security selection.

**C)** Work more with clients to better quantify their risk preferences.

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## Question #10 of 38

Question ID: 1458192

If the momentum effect persists over time, it would provide evidence against which of the following forms of market efficiency?

**A)** Weak form only.

**B)** Both weak form and semistrong form.

**C)** Semistrong form only.

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## Question #11 of 38

Question ID: 1458168

A market's efficiency is *most likely* to decrease by:

**A)** substantial analyst coverage of exchange-listed companies.

**B)** a ban on short selling.

**C)** high volumes of trading activity.

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## Question #12 of 38

Question ID: 1458189

The opportunity to take advantage of the downward pressure on stock prices that result from end-of-the-year tax selling is known as the:

**A)** January anomaly.

**B)** end-of-the-year anomaly.

**C)** end-of-the-year effect.

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## Question #13 of 38

Question ID: 1458183

Which of the following statements *least likely* describes the role of a portfolio manager in perfectly efficient markets? Portfolio managers should:

**A)** construct diversified portfolios that include international securities to eliminate unsystematic risk.

**B)** quantify client's risk tolerance, communicate portfolio policies and strategies, and maintain a strict buy and hold policy avoiding any changes in the portfolio to minimize transaction costs.

**C)** construct a portfolio that includes financial and real assets.

## Question #14 of 38

Question ID: 1458190

Which of the following would provide evidence against the semistrong form of the efficient market theory?

**A)** All investors have learned to exploit signals related to future performance.

**B)** Low P/E stocks tend to have positive abnormal returns over the long run.

**C)** Trend analysis is worthless in determining stock prices.

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## Question #15 of 38

Question ID: 1458180

Which of the following statements concerning market efficiency is *least* accurate?

**A)** Market efficiency assumes that individual market participants correctly estimate asset prices.

**B)** Tests of the semi-strong form of the EMH require that security returns be risk-adjusted using a market model.

**C)** If weak-form market efficiency holds, technical analysis cannot be used to earn abnormal returns over the long-run.

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## Question #16 of 38

Question ID: 1458166

The value of an asset that a rational investor with full knowledge about the asset's characteristics would willingly pay is *best* described as the asset's:

**A)** intrinsic value.

**B)** market value.

**C)** theoretical value.

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## Question #17 of 38

Question ID: 1462887

Behavioral finance theory suggests that investors tend to:

**A)** mimic the actions of better-informed investors.

**B)** underestimate their ability to analyze security information.

**C)** be more risk averse with respect to gains than with respect to losses.

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## Question #18 of 38

Question ID: 1458195

Investor overreaction that has been documented in securities markets is *most likely* attributable to investors exhibiting:

**A)** conservatism.

**B)** loss aversion.

**C)** risk aversion.

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## Question #19 of 38

Question ID: 1458191

Which of the following statements *best* describes the overreaction effect?

**A)** High returns over a one-year period are followed by high returns over the following year.

**B)** High returns over a one-year period are followed by low returns over the following three years.

**C)** Low returns over a three-year period are followed by high returns over the following three years.

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## Question #20 of 38

Question ID: 1458186

Octagon Advisors believes that the market is semi-strong efficient. The firm's portfolio managers *most likely* will use:

**A)** passive portfolio management strategies.

**B)** an enhanced indexing strategy that relies on trading patterns.

**C)** active portfolio management strategies.

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## Question #21 of 38

Question ID: 1458182

In a perfectly efficient market, portfolio managers should do all of the following EXCEPT:

**A)** diversify to eliminate systematic risk.

**B)** monitor their client's needs and circumstances.

**C)** quantify their risk and return needs within the bounds of the client's liquidity, income, time horizon, legal, and regulatory constraints.

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## Question #22 of 38

Question ID: 1462885

If stock markets are semistrong-form efficient, a portfolio manager is *least likely* to create value for investors by:

**A)** monitoring clients' needs and circumstances.

**B)** analyzing financial statements to select undervalued stocks.

**C)** allocating invested funds among asset classes.

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## Question #23 of 38

Question ID: 1458194

In behavioral finance theory, loss aversion is *most accurately* defined as asserting that for gains and losses of equal amounts, investors:

**A)** like gains more than they dislike losses.

**B)** dislike for losses and like for gains are proportionate.

**C)** dislike losses more than they like gains.

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## Question #24 of 38

Question ID: 1462884

An analyst with Guffman Investments has developed a stock selection model based on earnings announcements made by companies with high P/E stocks. The model predicts that investing in companies with P/E ratios twice that of their industry average that make positive earnings announcements will generate significant excess return. If the analyst has consistently made superior risk-adjusted returns using this strategy, which form of the efficient market hypothesis has been violated?

**A)** Semistrong and strong forms only.

**B)** Strong, semistrong, and weak forms.

**C)** Weak form only.

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## Question #25 of 38

Question ID: 1458175

The semi-strong form of the efficient market hypothesis (EMH) is *most accurately* described as asserting that security prices fully reflect all:

**A)** relevant information, including information not publicly available.

**B)** historical price and volume information.

**C)** publicly available information.

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## Question #26 of 38

Question ID: 1458176

Which of the following forms of the EMH assumes that no group of investors has monopolistic access to relevant information?

**A)** Strong-form.

**B)** Both weak and semistrong form.

**C)** Weak-form.

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## Question #27 of 38

Question ID: 1458173

The semi-strong form of efficient market hypothesis (EMH) asserts that:

**A)** all public information is already reflected in security prices.

**B)** both public and private information is already incorporated into security prices.

**C)** only past market information is reflected in security prices.

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## Question #28 of 38

Question ID: 1458165

A stock is said to be undervalued if its market price is:

**A)** less than its book value.

**B)** greater than its intrinsic value.

**C)** less than its intrinsic value.

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## Question #29 of 38

Question ID: 1458161

An efficient capital market:

**A)** fully reflects all of the information currently available about a given security, excluding risk.

**B)** does not fully reflect all of the information currently available about a given security, including risk.

**C)** fully reflects all of the information currently available about a given security, including risk.

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## Question #30 of 38

Question ID: 1458162

In an informationally efficient market:

**A)** buying and holding a broad market portfolio is the preferred investment strategy.

**B)** share prices adjust rapidly when companies announce results in line with expectations.

**C)** the conditions exist for active investment strategies to achieve superior risk-adjusted returns.

## Question #31 of 38

Question ID: 1458167

Which of the following would be inconsistent with an efficient market?

**A)** Price adjustments are biased.

**B)** Price changes are independent.

**C)** Stock prices adjust rapidly to new information.

## Question #32 of 38

Question ID: 1458174

Which of the following forms of the EMH assumes that no group of investors has monopolistic access to relevant information?

**A)** Strong-form.

**B)** Weak-form.

**C)** Both weak and semistrong form.

## Question #33 of 38

Question ID: 1458196

An investor who is more risk averse with respect to potential negative outcomes than potential positive outcomes *most likely* exhibits which behavioral finance characteristic?

**A)** Loss aversion.

**B)** Conservatism.

**C)** Mental accounting.

## Question #34 of 38

Question ID: 1458164

The measure of an asset's value that can *most likely* be determined without estimation is its:

**A)** fundamental value.

**B)** intrinsic value.

**C)** market value.

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## Question #35 of 38

Question ID: 1458185

David Farrington is an analyst at Farrington Capital Management. He is aware that many people believe that the capital markets are fully efficient. However, he is not convinced and would like to disprove this claim. Which of the following statements would support Farrington in his effort to demonstrate the limitations to fully efficient markets?

**A)** Processing new information entails costs and takes at least some time, so security prices are not always immediately affected.

**B)** Stock prices adjust to their new efficient levels within hours of the release of new information.

**C)** Technical analysis has been rendered useless by many academics who have shown that analyzing market trends, past volume and trading data will not lead to abnormal returns.

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## Question #36 of 38

Question ID: 1458193

The idea that uninformed traders, when faced with unclear information, observe the actions of informed traders to make decisions, is referred to as:

**A)** herding behavior.

**B)** information cascades.

**C)** narrow framing.

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## Question #37 of 38

Question ID: 1458169

An increase in which of the following factors would *most likely* improve a market's efficiency?

**A)** Restrictions on short selling.

**B)** Number of participants.

**C)** Bid-ask spreads.

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## Question #38 of 38

Question ID: 1458184

Which of the following is a limitation to fully efficient markets?

**A)** The gains to be earned by information trading can be less than the transaction costs the trading would entail.

**B)** Information is always quickly disseminated and fully embedded in a security's prices.

**C)** There are no limitations to fully efficient markets because the trading actions of fundamental and technical analysts are continuously keeping prices at their intrinsic value.