Chapter 8

1. The weak form of the EMH states that \_\_\_\_\_\_\_\_ must be reflected in the current stock price.
2. all past information, including security price and volume data
3. all publicly available information
4. all information, including inside information
5. all costless information
6. The semistrong form of the EMH states that \_\_\_\_\_\_\_\_ must be reflected in the current stock price.
7. all security price and volume data
8. all publicly available information
9. all information, including inside information
10. all costless information
11. The strong form of the EMH states that \_\_\_\_\_\_\_\_ must be reflected in the current stock price.
12. all security price and volume data
13. all publicly available information
14. all information, including inside information
15. all costless information
16. Random price movements indicate \_\_\_\_\_\_\_\_.
17. irrational markets
18. that prices cannot equal fundamental values
19. that technical analysis to uncover trends can be quite useful
20. that markets are functioning efficiently
21. The tendency when the \_\_\_\_\_\_ performing stocks in one period are the best performers in the next and the current \_\_\_\_\_\_\_\_ performers are lagging the market later is called the reversal effect.
22. worst; best
23. worst; worst
24. best; worst
25. best; best
26. You believe that you can earn 2% more on your portfolio if you engage in full-time stock research. However, the additional trading costs and tax liability from active management will cost you about .5%. You have an $800,000 stock portfolio. What is the most you can afford to spend on your research?
27. $4,000
28. $8,000
29. $12,000
30. $16,000
31. Even if the markets are efficient, professional portfolio management is still important because it provides investors with:

I. Low-cost diversification

II. A portfolio with a specified risk level

III. Better risk-adjusted returns than an index

1. I only
2. I and II only
3. II and III only
4. I, II, and III
5. If the U.S. capital markets are not informationally efficient, \_\_\_\_\_\_.
6. the markets cannot be allocationally efficient
7. systematic risk does not matter
8. no type of analysis can be used to generate abnormal returns
9. returns must follow a random walk
10. “Active investment management may at times generate additional returns of about .1%. However, the standard deviation of the typical well-diversified portfolio is about 20%, so it is very difficult to statistically identify any increase in performance.” Even if true, this statement is an example of the \_\_\_\_\_\_\_\_\_ problem in deciding how efficient the markets are.
11. Magnitude
12. selection bias
13. lucky event
14. allocation
15. Most tests of semistrong efficiency are \_\_\_\_\_\_\_\_\_.
16. designed to test whether inside information can be used to generate abnormal returns
17. based on technical trading rules
18. unable to generate any evidence of market anomalies
19. joint tests of market efficiency and the risk-adjustment measure
20. The effect of liquidity on stock returns might be related to:

I. The small-firm effect

II The book-to-market effect

III The neglected-firm effect

IV. The P/E effect

1. I and II only
2. I and III only
3. II and IV only
4. I, II, and III only
5. The term random walk is used in investments to refer to \_\_\_\_\_\_\_\_\_\_\_\_\_\_.
6. stock price changes that are random but predictable
7. stock prices that respond slowly to both old and new information
8. stock price changes that are random and unpredictable
9. stock prices changes that follow the pattern of past price changes
10. Stock market analysts have tended to be \_\_\_\_\_\_\_\_\_\_\_ in their recommendations to investors.
11. slightly overly optimistic
12. overwhelmingly optimistic
13. slightly overly pessimistic
14. overwhelmingly pessimistic
15. Which of the following contradicts the proposition that the stock market is weakly efficient?
16. Over 25% of mutual funds outperform the market on average.
17. Insiders earn abnormal trading profits.
18. Every January, the stock market earns above-normal returns.
19. Applications of technical trading rules fail to earn abnormal returns.
20. One type of passive portfolio management is \_\_\_\_\_\_\_\_.
21. investing in a well-diversified portfolio without attempting to search out mispriced securities
22. investing in a well-diversified portfolio while only seeking out passively mispriced securities
23. investing an equal dollar amount in index stocks
24. investing in an equal amount of shares in each of the index stocks
25. A technical analyst is most likely to be affiliated with which investment philosophy?
26. active management
27. buy and hold
28. passive investment
29. index funds
30. Insiders are able to profitably trade and earn abnormal returns prior to the announcement of positive news. This is a violation of which form of efficiency?
31. weak-form efficiency
32. semistrong-form efficiency
33. strong-form efficiency
34. technical analysis
35. The tendency of poorly performing stocks and well-performing stocks in one period to continue their performance into the next period is called the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
36. fad effect
37. martingale effect
38. momentum effect
39. reversal effect
40. When testing mutual fund performance over time, one must be careful of \_\_\_\_\_\_\_\_\_\_\_, which means that a certain percentage of poorer-performing funds fail over time, making the performance of remaining funds seem more consistent over time.
41. survivorship bias
42. lucky event bias
43. magnitude bias
44. mean reversion bias
45. The primary objective of fundamental analysis is to identify \_\_\_\_\_\_\_\_\_\_.
46. well-run firms
47. poorly run firms
48. mispriced stocks
49. high P/E stocks

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| --- | --- | --- | --- | --- |
| 1 | 2 | 3 | 4 | 5 |
| A | B | C | D | A |
| 6 | 7 | 8 | 9 | 10 |
| C | B | A | A | D |
| 11 | 12 | 13 | 14 | 15 |
| B | C | B | C | A |
| 16 | 17 | 18 | 19 | 20 |
| A | C | C | A | C |

5.

(.02 - .005)($800,000) = $12,000