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## Lesson #6 Quiz

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1. In the S&P 500 forecasting exercise, many subjects seemed to be subject to the representativeness heuristic. This concept of behavioral finance posits that:

1 / 1 point

- ☐ Most people don't behave like forecasters, they tend to be affected by their recurring thoughts at the time.
- ☐ Most people don't behave like forecasters, they tend to rely too heavily on the first piece of new information offered when making decisions.
- ☐ Most people don't behave like forecasters, they tend to interpret new evidence as a confirmation of their existing beliefs or theories.
- ☒ Most people don't behave like forecasters, what they saw in the past is representative of the future.

✓ Correct

2. An efficient market is defined as one in which:

1 / 1 point

- ☐ All participants have the same opportunity to generate the same returns.
- ☐ Asset prices are often in line with the intrinsic value.
- ☒ Asset prices quickly and fully reflect all available information.
- ☐ Transactions are ultimately costless.

✓ Correct

3. The Dividend Discount Model (or Gordon Growth Model) can be stated as follows.

1 / 1 point

Let the investor's discount rate be equal to  $r$ . If earnings equal dividends, and if dividends grow at the long-run rate  $g$ , then the price of the stock  $P$  can be written as follows:

- ☐  $P = (E * g) / (r)$
- ☐  $P = (E * r) / (g)$
- ☐  $P = E / (r + g)$
- ☒  $P = E / (r - g)$

✓ Correct

The price is the present value of the stock's future earnings.

4. Human judgment and experience can play a role in the advent of stock market crash because:

1 / 1 point

- ☒ A lot of people who have lived through financial crises have reported that, as a consequence of these crises and their narratives, their faiths in the market have diminished.
- ☐ Investors with an experience of financial crises are better at staying out of the market in turbulent times.
- ☐ Investors with an experience of financial crises are better at exploiting profit opportunities.
- ☐ Investors with an experience of financial crises are better at diversifying their portfolios.

✓ Correct