# SEMMINAR NO.11

1. If you believe in the ________ form of the EMH, you believe that stock prices reflect all relevant information including historical stock prices and current public information about the firm, but not information that is available only to insiders.
A. semistrong
B. strong
C. weak
D. A, B, and C
E. none of the above

2. When Maurice Kendall examined the patterns of stock returns in 1953 he concluded that the stock market was __________. Now, these random price movements are believed to be _________.
A. inefficient; the effect of a well-functioning market
B. efficient; the effect of an inefficient market
C. inefficient; the effect of an inefficient market
D. efficient; the effect of a well-functioning market
E. irrational; even more irrational than before

3. The stock market follows a __________.
A. random walk
B. submartingale
C. predictable pattern that can be exploited
D. A and C
E. B and C

4. A hybrid strategy is one where the investor
A. uses both fundamental and technical analysis to select stocks.
B. selects the stocks of companies that specialize in alternative fuels.
C. selects some actively-managed mutual funds on their own and uses an investment advisor to select other actively-managed funds.
D. maintains a passive core and augments the position with an actively managed portfolio.
E. none of the above.

5. The difference between a random walk and a submartingale is the expected price change in a random walk is ______ and the expected price change for a submartingale is ______.
A. positive; zero
B. positive; positive
C. positive; negative
D. zero; positive
E. zero; zero

6. The difference between a random walk and a submartingale is the expected price change in a random walk is ______ and the expected price change for a submartingale is ______.
A. negative; zero
B. negative; positive
C. zero; negative
D. zero; positive
E. zero; zero

7. Proponents of the EMH typically advocate
A. an active trading strategy.
B. investing in an index fund.
C. a passive investment strategy.
D. A and B
E. B and C

8. Proponents of the EMH typically advocate
A. buying individual stocks on margin and trading frequently.
B. investing in hedge funds.
C. a passive investment strategy.
D. A and B
E. B and C

9. If you believe in the _______ form of the EMH, you believe that stock prices reflect all information that can be derived by examining market trading data such as the history of past stock prices, trading volume or short interest.
A. semistrong
B. strong
C. weak
D. all of the above
E. none of the above

10. If you believe in the _________ form of the EMH, you believe that stock prices reflect all available information, including information that is available only to insiders.
A. semistrong
B. strong
C. weak
D. all of the above
E. none of the above

11. If you believe in the reversal effect, you should
A. buy bonds in this period if you held stocks in the last period.
B. buy stocks in this period if you held bonds in the last period.
C. buy stocks this period that performed poorly last period.
D. go short.
E. C and D

12. _________ focus more on past price movements of a firm's stock than on the underlying determinants of future profitability.
A. Credit analysts
B. Fundamental analysts
C. Systems analysts
D. Technical analysts
E. All of the above

13. _________ above which it is difficult for the market to rise.
A. Book value is a value
B. Resistance level is a value
C. Support level is a value
D. A and B
E. A and C

14. _________ below which it is difficult for the market to fall.
A. Intrinsic value is a value
B. Resistance level is a value
C. Support level is a value
D. A and B
E. B and C

15. ___________ the return on a stock beyond what would be predicted from market movements alone.
A. An excess economic return is
B. An economic return is
C. An abnormal return is
D. A and B
E. A and C

16. The debate over whether markets are efficient will probably never be resolved because of ________.
A. the lucky event issue.
B. the magnitude issue.
C. the selection bias issue.
D. all of the above.
E. none of the above.

17. A common strategy for passive management is ____________.
A. creating an index fund
B. creating a small firm fund
C. creating an investment club
D. A and C
E. B and C

18. Arbel (1985) found that
A. the January effect was highest for neglected firms.
B. the book-to-market value ratio effect was highest in January
C. the liquidity effect was highest for small firms.
D. the neglected firm effect was independent of the small firm effect.
E. small firms had higher book-to-market value ratios.

19. Researchers have found that most of the small firm effect occurs
A. during the spring months.
B. during the summer months.
C. in December.

D. in January.
E. randomly.

20. Basu (1977, 1983) found that firms with low P/E ratios
A. earned higher average returns than firms with high P/E ratios.
B. earned the same average returns as firms with high P/E ratios.
C. earned lower average returns than firms with high P/E ratios.
D. had higher dividend yields than firms with high P/E ratios.
E. none of the above.

21. Jaffe (1974) found that stock prices _________ after insiders intensively bought shares.
A. decreased
B. did not change
C. increased
D. became extremely volatile
E. became much less volatile

22. Banz (1981) found that, on average, the risk-adjusted returns of small firms
A. were higher than the risk-adjusted returns of large firms.
B. were the same as the risk-adjusted returns of large firms.
C. were lower than the risk-adjusted returns of large firms.
D. were unrelated to the risk-adjusted returns of large firms.
E. were negative.

23. Proponents of the EMH think technical analysts
A. should focus on relative strength.
B. should focus on resistance levels.
C. should focus on support levels.
D. should focus on financial statements.
E. are wasting their time.

24. Studies of positive earnings surprises have shown that there is
A. a positive abnormal return on the day positive earnings surprises are announced.
B. a positive drift in the stock price on the days following the earnings surprise announcement.
C. a negative drift in the stock price on the days following the earnings surprise announcement.
D. both A and B are true.
E. both A and C are true.

25. Studies of negative earnings surprises have shown that there is
A. a negative abnormal return on the day negative earnings surprises are announced.
B. a positive drift in the stock price on the days following the earnings surprise announcement.
C. a negative drift in the stock price on the days following the earnings surprise announcement.
D. both A and B are true.
E. both A and C are true.

26. Studies of stock price reactions to news are called
A. reaction studies.
B. event studies.
C. drift studies.
D. both A and D are true.
E. both B and D are true.

27. On November 22, 2005 the stock price of Walmart was $39.50 and the retailer stock index was 600.30.
On November 25, 2005 the stock price of Walmart was $40.25 and the retailer stock index was 605.20.
Consider the ratio of Walmart to the retailer index on November 22 and November 25. Walmart is _______ the retail industry and technical analysts who follow relative strength would advise _______ the stock.
A. outperforming, buying
B. outperforming, selling
C. underperforming, buying
D. underperforming, selling
E. equally performing, neither buying nor selling

28. Work by Amihud and Mendelson (1986,1991)
A. argues that investors will demand a rate of return premium to invest in less liquid stocks.
B. may help explain the small firm effect.
C. may be related to the neglected firm effect.
D. B and C.
E. A, B, and C.

29. Fama and French (1992) found that the stocks of firms within the highest decile of market/book ratios had average monthly returns of _______ while the stocks of firms within the lowest decile of market/book ratios had average monthly returns of ________.
A. greater than 1%, greater than 1%
B. greater than 1%, less than 1%
C. less than 1%, greater than 1%
D. less than 1%, less than 1%
E. less than 0.5%, greater than 0.5%

30. A market decline of 23% on a day when there is no significant macroeconomic event ______ consistent with the EMH because ________.
A. would be, it was a clear response to macroeconomic news.
B. would be, it was not a clear response to macroeconomic news.
C. would not be, it was a clear response to macroeconomic news.
D. would not be, it was not a clear response to macroeconomic news.
E. none of the above.

31. In an efficient market, __________.
A. security prices react quickly to new information
B. security prices are seldom far above or below their justified levels
C. security analysts will not enable investors to realize superior returns consistently
D. one cannot make money
E. A, B, and C

32. The weak form of the efficient market hypothesis asserts that
A. stock prices do not rapidly adjust to new information contained in past prices or past data.
B. future changes in stock prices cannot be predicted from past prices.
C. technicians cannot expect to outperform the market.
D. A and B
E. B and C

33. A support level is the price range at which a technical analyst would expect the
A. supply of a stock to increase dramatically.
B. supply of a stock to decrease substantially.
C. demand for a stock to increase substantially.
D. demand for a stock to decrease substantially.
E. price of a stock to fall.

34. A finding that _________ would provide evidence against the semistrong form of the efficient market theory.
A. low P/E stocks tend to have positive abnormal returns
B. trend analysis is worthless in determining stock prices
C. one can consistently outperform the market by adopting the contrarian approach exemplified by the reversals phenomenon
D. A and B
E. A and C

35. The weak form of the efficient market hypothesis contradicts
A. technical analysis, but supports fundamental analysis as valid.
B. fundamental analysis, but supports technical analysis as valid.
C. both fundamental analysis and technical analysis.
D. technical analysis, but is silent on the possibility of successful fundamental analysis.

E. none of the above.

36. Two basic assumptions of technical analysis are that security prices adjust

A. rapidly to new information and market prices are determined by the interaction of supply and demand.
B. rapidly to new information and liquidity is provided by security dealers.
C. gradually to new information and market prices are determined by the interaction of supply and demand.
D. gradually to new information and liquidity is provided by security dealers.
E. rapidly to information and to the actions of insiders.

37. Cumulative abnormal returns (CAR)

A. are used in event studies.
B. are better measures of security returns due to firm-specific events than are abnormal returns (AR).
C. are cumulated over the period prior to the firm-specific event.
D. A and B.
E. A and C.