

Assignment 3

Financial Investment
Autumn 2023

Instructions: Please select solve this pool of multiple option question. Only one answer may be keyed as correct. You should submit your answers though the IS system (Homework vault) up to Tuesday 17.10 (23:59).

1. In an efficient market, the change in a company's share price is most likely the result of:
 - a) Insiders' private information.
 - b) The previous day's change in stock price.
 - c) New information coming into the market.

2. Regulation that restricts some investors from participating in a market will most likely:
 - a) Impede market efficiency.
 - b) Not affect market efficiency.
 - c) Contribute to market efficiency.

3. Which of the following regulations will most likely contribute to market efficiency?
Regulatory restrictions on:
 - a) Short selling.
 - b) Foreign traders.
 - c) Insiders trading with nonpublic information.

4. Which of the following market regulations will most likely impede market efficiency?
 - a) Restricting traders' ability to short sell.
 - b) Allowing unrestricted foreign investor trading.
 - c) Penalizing investors who trade with nonpublic information.

5. If markets are efficient, the difference between the intrinsic value and market value of a company's security is:
 - a) Negative.
 - b) Zero.
 - c) Positive.

6. The intrinsic value of an undervalued asset is:
 - a) Less than the asset's market value.
 - b) Greater than the asset's market value.
 - c) The value at which the asset can currently be bought or sold.

7. The market value of an undervalued asset is:
 - a) Greater than the asset's intrinsic value.
 - b) The value at which the asset can currently be bought or sold.
 - c) Equal to the present value of all the asset's expected cash flows.

8. With respect to the efficient market hypothesis, if security prices reflect only past prices and trading volume information, then the market is:
 - a) Weak-form efficient.
 - b) Strong-form efficient.
 - c) Semistrong-form efficient.

9. Which one of the following statements best describes the semistrong form of market efficiency?
 - a) Empirical tests examine the historical patterns in security prices.
 - b) Security prices reflect all publicly known and available information.
 - c) Semistrong-form efficient markets are not necessarily weak-form efficient.

10. If markets are semistrong efficient, standard fundamental analysis will yield abnormal trading profits that are:
 - a) Negative.
 - b) Equal to zero.
 - c) Positive.

11. If prices reflect all public and private information, the market is best described as:
- a) Weak-form efficient.
 - b) Strong-form efficient.
 - c) Semistrong-form efficient.
12. If markets are semistrong-form efficient, then passive portfolio management strategies are most likely to:
- a) Earn abnormal returns.
 - b) Outperform active trading strategies.
 - c) Underperform active trading strategies.
13. If a market is semistrong-form efficient, the risk-adjusted returns of a passively managed portfolio relative to an actively managed portfolio are most likely:
- a) Lower.
 - b) Higher.
 - c) The same.
14. Technical analysts assume that markets are:
- a) Weak-form efficient.
 - b) Weak-form inefficient.
 - c) Semistrong-form efficient.
15. Fundamental analysts assume that markets are:
- a) Weak-form inefficient.
 - b) Semistrong-form efficient.
 - c) Semistrong-form inefficient.