Question #1 of 34

An efficient capital market:

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

Question #2 of 34

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

A) The strong-form EMH assumes perfect markets.

B) The semi-strong form EMH addresses market and non-market public information.

C) The weak-form EMH states that stock prices reflect current public market information and expectations.

Question #3 of 34

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) remain the same.

B) decrease.

C) increase.

Question #4 of 34

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

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

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

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

Question #5 of 34

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) market value.

B) theoretical value.

C) intrinsic value.

Question #6 of 34

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

A) construct a portfolio that includes financial and real assets.

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 diversified portfolios that include international securities to eliminate unsystematic risk.

Question #7 of 34

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

A) active portfolio management strategies.

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

C) passive portfolio management strategies.

Question #8 of 34

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

A) achieve complete diversification of the portfolio.

B) minimize systematic risk in the portfolio.

C) follow a strict buy and hold strategy.

Question #9 of 34

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

A) loss aversion.

B) risk aversion.

C) conservatism.

Question #10 of 34

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

A) less than its intrinsic value.

B) less than its book value.

C) greater than its intrinsic value.

Question #11 of 34

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

A) Bid-ask spreads.

B) Restrictions on short selling.

C) Number of participants.

Question #12 of 34

In an informationally efficient market:

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

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

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

Question #13 of 34

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.

Question #14 of 34

An investor who is more risk averse with respect to potential negative outcomes than potential positive outcomes *most likely* exhibits:

A) mental accounting.

B) loss aversion.

C) conservatism.

Question #15 of 34

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

A) Both weak and semistrong form.

B) Weak-form.

C) Strong-form.

Question #16 of 34

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

A) Trend analysis is worthless in determining stock prices.

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

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

Question #17 of 34

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

A) Weak-form.

B) Strong-form.

C) Both weak and semistrong form.

Question #18 of 34

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

A) fully reflect all publicly available information.

B) fully reflect all historical price information.

C) fully reflect all relevant information including insider information.

Question #19 of 34

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

A) 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.

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

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

Question #20 of 34

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 #21 of 34

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

A) information cascades.

B) narrow framing.

C) herding behavior.

Question #22 of 34

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

A) Market.

B) Public, private, and future.

C) Public and private.

Question #23 of 34

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) end-of-the-year anomaly.

B) end-of-the-year effect.

C) January anomaly.

Question #24 of 34

In behavioral finance theory, how is loss aversion *most accurately* defined? For gains and losses of equal amounts, investors:

A) dislike for losses and like for gains are proportionate.

B) like gains more than they dislike losses.

C) dislike losses more than they like gains.

Question #25 of 34

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

A) a ban on short selling.

B) substantial analyst coverage of the exchange listed companies

C) a high amount of trading activity.

Question #26 of 34

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.

Question #27 of 34

The implication of efficient capital markets and a lack of superior analysts have led to the introduction of:

A) index funds.

B) balanced funds.

C) futures options.

Question #28 of 34

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.

Question #29 of 34

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

A) The semi-strong form EMH addresses market and non-market public information.

B) The weak-form EMH suggests that fundamental analysis will not provide excess returns while the semi-strong form suggests that technical analysis cannot achieve excess returns.

C) The strong-form EMH assumes cost free availability of all information, both public and private.

Question #30 of 34

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

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

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.

Question #31 of 34

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

A) Price changes are independent.

B) Stock prices adjust rapidly to new information.

C) Price adjustments are biased.

Question #32 of 34

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

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

B) all public information is already reflected in security prices.

C) past and future prices exhibit little or no relationship to another.

Question #33 of 34

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

A) diversify to eliminate systematic risk.

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

C) monitor their client's needs and circumstances.

Question #34 of 34

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

A) intrinsic value.

B) market value.

C) fundamental value.