Chapter 12 - Practice Questions

1. 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

2. _________ 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

3. A daily fluctuation of little importance is called ____________.
   A) a minor trend
   B) a primary trend
   C) an intermediate trend
   D) a market trend
   E) none of the above

4. 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.

5. 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.

6. The weather report says that a devastating and unexpected freeze is expected to hit Florida tonight, during the peak of the citrus harvest. In an efficient market one would expect the price of Florida Orange's stock to
   A) drop immediately.
   B) remain unchanged.
   C) increase immediately.
   D) gradually decline for the next several weeks.
   E) gradually increase for the next several weeks.

7. According to proponents of the efficient market hypothesis, the best strategy for a small investor with a portfolio worth $25,000 is probably to
   A) perform fundamental analysis.
   B) exploit market anomalies.
   C) invest in Treasury securities.
   D) invest in derivative securities.
   E) invest in mutual funds.

8. Psychologists have found that people who make decisions that turn out badly blame themselves more when that decision was unconventional. The name for this phenomenon is
   A) regret avoidance.
   B) framing.
   C) mental accounting.
   D) overconfidence.
   E) obnoxicity.

9. Your professor finds a stock-trading rule that generates excess risk-adjusted returns. Instead of publishing the results, she keeps the trading rule to herself. This is most closely associated with ________.
   A) regret avoidance
   B) selection bias
   C) framing
   D) insider trading
   E) none of the above

10. An example of ________ is that it is not as painful to have purchased a blue-chip stock that decreases in value, as it is to lose money on an unknown start-up firm.
   A) mental accounting
   B) regret avoidance
   C) overconfidence
   D) conservatism
   E) none of the above

Answer Key

1. C
2. B
3. A
4. D
5. D
6. A
7. E
8. A
9. B
10. B