

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Another way to state the efficient markets condition is: in an efficient market, 1) _____
- A) unexploited profit opportunities will not exist for long, as market participants will act quickly to eliminate them.
 - B) every financial market participant must be well informed about securities.
 - C) unexploited profit opportunities will never exist as market participants ensure that they are instantaneously dissipated.
 - D) only A and C of the above.
- 2) Stockholders are residual claimants, meaning that they 2) _____
- A) are liable for all of a company's debts.
 - B) have a higher claim on cash flow than bond holders.
 - C) have the first priority claim on all of a company's assets.
 - D) receive the remaining cash flow after all other claims are paid.
 - E) will never share in a company's profits.
- 3) Expectations play a key role in the theories that attempt to explain the risk and term structure of interest rates. For example, expectations of future _____ interest rates play a central role in the determination of _____ interest rates. 3) _____
- A) long-term; short-term
 - B) market; government
 - C) short-term; long-term
 - D) government; market
- 4) The value of any investment is found by 4) _____
- A) computing the future value of all future expenses.
 - B) computing the present value of all future sales.
 - C) computing the present value of all future liabilities.
 - D) computing the future value of all sales.
 - E) computing the present value of all future cash flows.

- 5) Which of the following statements are true about rational expectations? 5) _____
- A) The evidence from studies using survey data is not as supportive of rational expectations as is the evidence from financial markets.
 - B) Survey evidence does indicate that if there is a change in the way a variable moves, then the way expectations of this variable are formed will change as well.
 - C) The stock market crash of 1987 indicates that the efficient markets hypothesis is not a valid theory.
 - D) All of the above.
 - E) Only A and B of the above.
- 6) To say that stock prices follow a "random walk" is to argue that 6) _____
- A) stock prices rise, then fall in a predictable fashion.
 - B) stock prices are, for all practical purposes, unpredictable.
 - C) stock prices rise, then fall.
 - D) stock prices tend to follow trends.
- 7) In the Gordon growth model, a decrease in the required rate of return 7) _____
- A) increases the future stock price.
 - B) has no effect on stock prices.
 - C) increases the current stock price.
 - D) reduces the future stock price.
 - E) reduces the current stock price.
- 8) Dishonest corporate accounting procedures caused stock prices to 8) _____
- A) increase due to higher expected dividend growth and lower required return.
 - B) remain unchanged.
 - C) increase due to higher expected dividend growth and higher future sales price.
 - D) decrease due to lower expected dividend growth and lower required return.
 - E) decrease due to lower expected dividend growth and higher required return.
- 9) Which of the following types of information most likely allows the exploitation of a profit opportunity? 9) _____
- A) Hot tips from a stockbroker
 - B) Financial analysts' published recommendations
 - C) Insider information
 - D) All of the above
 - E) Both B and C of the above

10) Evidence in support of the efficient markets hypothesis includes

10) _____

- A) the failure of technical analysis to outperform the market.
- B) excessive volatility.
- C) the small-firm effect.
- D) the January effect.
- E) all of the above.

Answer Key

Testname: PRACTICE_CH7

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