END OF CHAPTER EXERCISES

Chapter 13 : Efficient Markets And Predictability

Investments : Spot and Derivatives Markets

(Keith Cuthbertson, Dirk Nitzsche)

1. What is Brownian motion?

2. Does the EMH imply that you should never change the proportions in which you hold stocks in your portfolio?

3. If the EMH were true would there ever be any takeovers?

4. (a) What is a random walk for stock prices ? What does this imply for stock returns ?
   (b) Is a random walk a useful statistical representation of stock price movements?
   (c) What is the implication for stock *returns* of the random walk model of stock prices?

5. How can you statistically test whether stock prices are mean reverting?

6. Surely it is impossible to test whether stock prices are "excessively volatile"? Even if they are excessively volatile, does this have major adverse effects on the economy in general ?

7. Where does the balance of the evidence lie on whether you can successfully "pick winners"?