END OF CHAPTER EXERCISES

Chapter 14 : Anomalies, Noise Traders And Chaos

Investments : Spot and Derivatives Markets

(Keith Cuthbertson, Dirk Nitzsche)

1. How would you define a "noise trader" and a "smart money" trader ?

2. Can noise traders outperform rational traders and hence stay in the market ?

3. How do the interactions of noise traders and "smart money" lead to mispriced shares?

4. What is the essence of chaos theory and why are the results counterintuitive?

5. Name one stock market anomaly that you believe provides a profitable trading strategy.

6. At the end of 1999 and in the first three months of 2000, certain "dot.com" companies were being floated for hundreds of millions of dollars even though they had only been trading for a few years, had very small turnover (e.g. $1m p.a.) and had not yet shown a profit. Is this rational or a classic example of "noise traders" and a (non-rational) bubble ?

7. Can noise trader behaviour explain the discounts found on closed-end-funds (i.e. investment trusts in the UK) ?