Chapter Thirteen Homework Exercises

1. A study of annual earnings reports found that these reports had no effect on stock prices. How can we reconcile this conclusion with economic theory, which says that stock prices depend crucially on a corporation's economic health; in particular, its dividends and earnings?

2. An old Wall Street adage is, "Buy on the rumor, sell on the news." Why would stock prices go up after a rumor and not go up when the anticipated event actually occurs?

3. Briefly explain why the following allegations, if true, either would or would not provide evidence against Fama's interpretation of the efficient-market hypothesis:
   a. A well-known investment strategy consistently earns a return greater than zero.
   b. When the stock market goes down in January, it usually goes down during the next 11 months.
   c. The stock market almost always goes up at least 20 percent in the 9 months preceding presidential elections and goes down 20 percent during the 12 months following elections.
   d. AAA Corporate bonds consistently give higher returns than AAA municipal bonds.

4. Briefly explain why each of the following events is or is not a persuasive reason to buy stock:
   a. Firm A hasn't missed a dividend payment in 119 years.
   b. Firm A has a higher value of Tobin's q than does firm B.
   c. Yesterday, the Fed reported a $2.5 billion increase in the money supply last week.
   d. The term structure is downward sloping, indicating that financial experts expect interest rates to fall.

5. R. Foster Winans, who leaked stories to be published in *The Wall Street Journal*, wrote that, "The only reason to invest in the market is because you think you know something others don't." Is there any other reason to buy stock? If everyone had exactly the same information, would anyone buy stock?