Chapter 1 - Introduction to Financial Markets

1-1:

A. This investment strategy uses past trade data so this is a failure of weak form efficiency.
B. This investment strategy uses inside information so this is a failure of strong form efficiency.
C. This investment strategy uses publicly available information so this is a failure of semistrong form efficiency.
D. This investment strategy uses no information whatsoever, - the dart board is purely random, - so this is a not a test of market efficiency.
E. This investment strategy uses publicly available information so this is a failure of semistrong form efficiency.
F. This investment strategy uses publicly available information so this is a failure of semi-strong form efficiency. The publicly available information is information about insider trading, but once the information about what insiders are doing is made public, using this information is a test of semistrong market efficiency.
G. This investment strategy uses past trade data so this is a failure of weak form efficiency.
H. This is inside information not available to the public, so this investment strategy uses inside information so this is a failure of strong form efficiency.

1-2:

One of the characteristics of an informationally efficient market is that value relevant information hits the market randomly. Quarterly earnings report information tends to hit the market quarterly. This might explain why it takes some time for the information to completely filter through to the price level. Even with a multitude of analysts examining the earnings data, it takes some time to determine whether announced earnings represent permanent or transitory earnings.

1-3:

Think about what would happen if someone taped a $100 bill to the blackboard every morning before class. If you were the first to class you could get the $100 bill. If you were the first person in class every morning you might prevent your classmates from finding out about your windfall. However, as soon as the class becomes informationally efficient (your classmates find out what is going on) what are your chances of getting to class first every morning?