The Stock Market
ECON 4673
Dr. Keen

Problems

1. If the public expects a corporation to lose $5 per share this quarter and it actually loses $4, what does the efficient market hypothesis predict will happen to the price of the stock when the $4 loss is announced?

2. If you read in the Wall Street Journal that the "smart money" on Wall Street expects stock prices to fall, should you follow that lead and sell all your stocks?

3. "An efficient market is one in which no one ever profits from having better information than the rest of the market participants." Is this statement true, false, or uncertain? Explain your answer.

4. Compute the price of a share of stock that pays a $1 per year dividend and that you expect to be able to sell in one year for $20, assuming you require a 15% return. You can also assume your first dividend is received right before you expect sell the stock.

5. After careful analysis, you have determined that a firm's dividends should grow at 7%, on average, in the foreseeable future. The firm's current dividend is $3. Compute the current price of this stock, assuming the required return is 18%.

6. The current price of a stock is $65.88. If dividends are expected to be $1 per share for the next five years, and the required return is 10%, then what should the price of the stock be in 5 years when you plan to sell it?

7. A company has just announced a 3-for-1 stock split, effective immediately. Prior to the split, the company had a market value of $5 billion with 100 million shares outstanding. Assuming the split conveys no new information about the company, what is the value of the company, the number of shares outstanding, and the price per share after the split?