

Homework Assignment 6. Due: Thursday, March 9.

1. (2 point) Explain the difference between adaptive expectations and rational expectations?
2. (2 point) Explain what the Efficient Market Hypothesis means? If this hypothesis is true, can an investor expect to earn consistently higher returns than the market average?
3. (2 points) Suppose that company A paid a \$0.5 dividend on each of its stocks. Assume that the growth rate of dividends is 4% a year. The risk-free interest rate is 2% and the risk premium is 4%. What is the current price of one stock of the company A?
4. (2 points) The Enron scandal caused an almost immediate drop in stock prices. Explain what are the primary causes of this drop?
5. (2 points) Name at least three types of evidence against the Efficient Market Hypothesis and explain how exactly each one violates this theory.