Key .

Quiz one

Student name: _____.   Student ID:_____.

Q1. What are the neoclassical economic assumptions about people

1. People have Rational preferences
2. "   max. utility and firms max. profits
3. "   make independent decisions

Q2. Fill in the blanks
People preferences are ___Complete___. And ___transitive___

Student name: _____.   Student ID:_____.

Q1. Discuss the forms of market efficiency, and the type of investors based on their risk appetite

1. Weak form ⟶ Past info
2. Semi-strong form ⟶ Past and Current
3. Strong form ⟶ Past + Current + future "insider info"

_2_

4. Risk Averse; require high Return to Compensate the higher level of Risk

5. Risk neutral people Care about Return and Risk does not matter at all.

6. Risk seeker low weight, they prefer Risk Return at least at times

(2)

/10 → Linda
on 7

What are the three supports on which market efficiency rests? Why is it that only one of them is required?

1. Investors are rational
2. Errors are uncorrelated
3. Unlimeted Arbitrage.

~~# All one of them is~~

※ every ~~one~~ 1 of these Supporters rely on each other which make the market is efficient so if one fails the market fails to be efficient which explains why every supporter of them is explained and studied alone.

① lagged reaction to earnings.

② The size firme effect (small and large firm).

③ Value vs. growth return.

④ momuntem reversal.

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* the size firme effect :
Small and large firm

الشركات الصغيرة تحقق ارباح اكثر بكثير من الشركات الكبيرة ولكن عنا ما بحدث هذا الشيء بسبب (size effect)

ال P/E في الشركات الصغيرة بكون افضل من ال P/E في الشركات الكبيرة.

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* lagged reaction to earning : ردود الافعال المتأخرة عن الارباح

لما الشركة تعلن عن ارباح و earning بكون السوق والشك يبدن افعال وردة فعل

ولما الشركة تعلن عن توزيع ال Div المعروض ابو المستثمرين يتحركوا وسعر الاسهم السهم ينزل بيبع سعر السهم يطلع لانو السوق بكون unefficent.
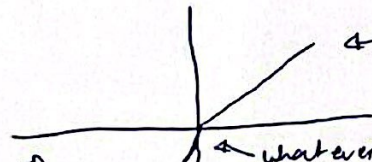
Question One: differentiate between the following

1. Integration and segregation

Occurs when events are lumbed together. (Risk seeker/averse).

Occurs when events occur at one time (depends on my previous losses).

when integrate after a loss will hold value function down.

integrate after win will lift value function up.

whatever decision we take of "segregation" we'll go back to reference point.

2. Mental accounting and framing

tendency of investors ability to study their finance, distribute their cash in order to get benefits as much as possible from different investments and reduce risk to it's lowest.

decision making to a problem with possible outcomes, depend on
3) ① personality. ② perception ③ presentation.

Question Two: discuss the fourfold pattern

|	Gain	loss
high prob	Averse	Seeker
low prob.	Seeker	averse
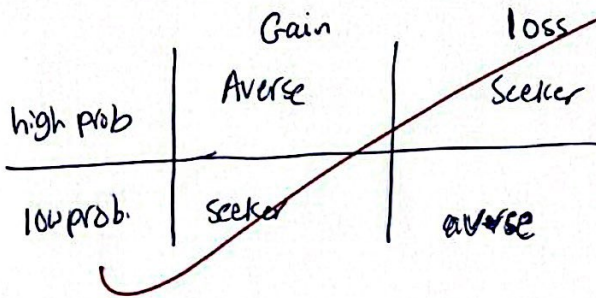
investors prefer certain gain over probable losses, 4-fold pattren depend on weighing function and on risk prefrence, how investors want to seek risk if it's high/low, As a risk seeker (seeking for risk to get higher return, Same for averse if seeking losses they would take lowest probability to reduce as much risk as can. (Continue at the back).

Question Three: What is the value function:-

One of factors that effect prospect theory that effect my decisions,

- In positive domain, investors are averse leaving value function concaved in shape and convex in negative domain as investors are seekers.

losses has a steeper motion rather than any gain to be received, as losses occur it will leave a negative impact on investors (losses loom larger than gains).

+ domain.
Averse.
gain
Seeker → losses larger than gains.
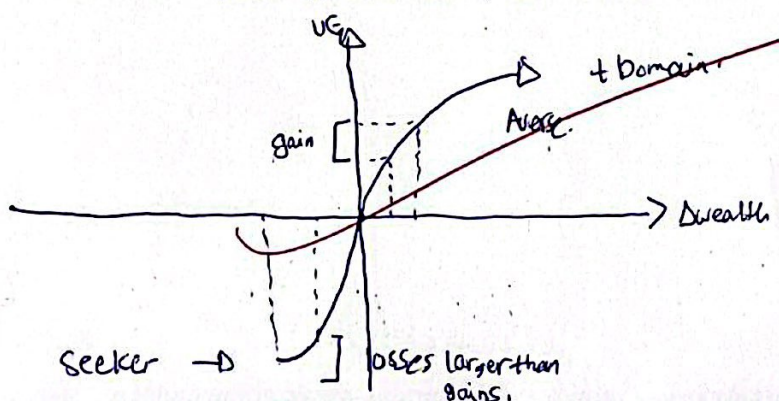
Value function:- It come of the replacement of utility theory to the expected utility theory.
- Value function ⇒ Δ in wealth.
- utility ⇒ losses/gains. ⇐ case.