

# Finance

[Finance](#)



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The Exact Questions Regarding this Assignment If you can accurately predict the next move in an asset price based on its previous three changes then this price dynamic would be an example of a random walk.

True or False

2. A speculator destroys value while an investor creates value.

True or False

3. The difference between speculation and investment is a matter of the expected holding period.

True or False

4. I have analyzed the Company Facebook. I believe a share is worth \$35 per share. Based on my analysis and the current market price of \$30 per share I buy 500 shares. I am using the Castle in the Air Theory of investing.

True or False

5. I have purchased 500 shares of EMC Corp without analyzing the fundamentals of the company. I know that data storage is a hot area that is getting a lot of positive press coverage. I expect that I will be able to sell my shares for a gain of at least 7% within the next year. I am basing my investment strategy on the Firm Foundation Theory.

True or False

6. If you calculate the growth prospects of a firm and from this forecast you project the amount of and timing of dividends and then you discount this dividend stream back to the present you are applying the Firm Foundation Theory.

True or False

7. Buying real estate in 2006 was irrational because it was obvious that the USA real estate market was in the midst of an expanding bubble. Only a fool

would have purchased real estate in 2006.

True or False

8. I do not currently own shares of FB. I think that the business model of FB is going to fail. I decide to borrow shares of FB and then sell these borrowed shares. This is an example of a short sale.

True or False

9. It was individual investors who made huge mistakes that led to the dot.com and housing bubbles and the collapse of these markets. If individuals had allowed professionals to manage their money the destruction of value that took place when the dot.com and housing bubbles burst could have been avoided.

True or False

10. Investors are rational and this places constraints on asset prices. For example if Company X owns 90% of company Y and 10% of Company Y is traded on a stock exchange then the value of company X will always be the value of 90% of company Y plus the value of Company X.

True or False

11. IPOs are a way for insiders to liquidate their ownership interests of a company. IPOs tend to increase in frequency during a stock market bubble because the public is demanding to participate in the market for a new technology. This demand increases the value of shares offered and fuels the demand for more share offerings.

True or False

12. The only group that made money during between 1998 and 2000 in the US stock markets was brokers. All investors lost.

True or False

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13.

Time

price

0

\$1

1

\$1.30

2

\$1.50

3

1.25

4

1.7

5

1.2

An investor who bought this asset in year 0 and sold it in at the end of year 5 would have earned an average rate of return of X% compounded annually.

Answer

8.9%

3.71%

12%

4.32%

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14. A person who bought an asset in year 0 that appreciated at 4% per year until the end of year five would have more wealth than a person who purchased asset V at time 0.

True or False

15. The order of the prices on asset V between years 2-4 will not change your answer to question 13.

True or False

16. If all shares that compose the S&P 500 increase by in price by 1% then the index will increase by 1%.

True or False