BS2551 Money Banking and Finance

Seminar 1

Given the following situations, determine whether or not the EMH is violated.

A) A brokerage firm is able to obtain a 3% profit adjusted for risk, above normal market returns.
B) On average, investors in the stock market are expected to earn a positive profit on their investment. Some investors will earn considerably more then others.
C) You have discovered that on each Monday you are able to obtain an abnormal return of 5% after all costs have been encountered for.

2) The EMH implies that abnormal returns are expected to be zero. Yet in order to achieve EMH, arbitrage occurs to push prices to equilibrium levels. If they earn profits in the process of achieving equilibrium, is this violating the EMH.

3) If EMH holds, what is the Net Present Value (NPV) of any stock, regardless of risk.?