

EC303: Money and Banking

In-class exercise 9

Spring 2022

Exercise 1

If monetary policy becomes more transparent about the future course of interest rates, how would that affect stock prices, if at all?

Exercise 2

Can you as a person with rational expectations, given new information about the oil industry, expect the price of a share of Exxon Mobil to rise by 10% in the next month?

Exercise 3

"An efficient market is one in which no one ever profits from having better information than the rest". What's wrong with this statement?

Exercise 4

A company has just announced a 2-for-1 stock split, effective immediately. Prior to the split, the company had a market value of \$15 billion with 100 million shares outstanding. Assuming that the split conveys no new information about the company, what is the value of the company, the number of shares outstanding, and price per share after the split?

Exercise 5

Currently a share of stock is paying a dividend (cash payout C) of \$4 to be paid in exactly one year and has a known selling price in one year (P) of \$25. The expected return (R) of similar assets is 8%, and the current market price is \$24.00. What is the total rate of return (R^) on this asset?*

Exercise 6

A stock is trading today at \$20. The following describes the random-walk behavior of price movements of the stock in future.

- Gain equals \$2
- Loss equals \$1
- Gain and loss are equally likely (random walk behavior) (prob.=0.5 each)

What is the price of this stock in period P_{t+1} and P_{t+2} ?