#1-142A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Portfolio Management

Q: If a firm announces an unexpectedly large cash dividend, the efficient market hypothesis (EMH) would predict which of the following price changes at the announcement?

CORRECT ANSWER:

Ⓒ **An abnormal price change to occur at the time of the announcement.**

Market efficiency assumes investors adjust their estimate of security prices "Rapidly" to reflect their interpretation of the new information received. Market efficiency also assumes that new information comes to market randomly and is available to all investors at the same time.

Therefore, the price should not be reflected prior to the announcement. (assuming no insider trading occurred...)

CFA Society Hong Kong
Candidate Services

Mr. Zap Cheng, CFA
Candidate Services Committee

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