

- 1** Looking at the 1983-89 period what can you say about Market efficiency before the earnings are announced

Nothing

Information leakage before the earnings are announced

There was leakage for negative surprises. Investors seem to have gotten wind of the bad news and started selling the stock

Market efficiency after the earnings are announced

Before 1989 the market was quite inefficient. It took days to fully digest the announced earnings. The market seem to be reacting weeks after the earnings announcement.

For each answer support your arguments with data from the chart and discussions in the article.

- 2** Looking at the 1995-98 period what can you say about Market efficiency before the earnings are announced

Nothing

Information leakage before the earnings are announced

There was leakage for negative surprises. Investors seem to have gotten wind of the bad news and started selling the stock

Market efficiency after the earnings are announced

After 1995 there seems to be a post-announcement drift for positive surprise earnings.

The market keeps reacting to the old news

For each answer support your arguments with data from the chart and discussions in the article.

- 3** What did the analysts forecast as profit growth for the first quarter of 1998 ? Did the market behave in an efficient manner in the first quarter of 1998 ?

The companies in the S&P 500 to report by that day in 1988 had first-quarter profit growth of 3.3%, the reported profits were still 2.9% above analysts' much-reduced estimates, according to First Call Corp. That means the analysts forecast $3.3 - 2.9 = 0.4\%$.

- 4** Did the market behave in an efficient manner when the potential accounting irregularities about Cendant were discovered by the market ?

On April 176, the stock opened on the New York Stock Exchange at $18 \frac{3}{4}$, down 48% from the previous day's close of 36. It is not clear that value drop should be so high. The fundamen: of the compnay have not changed much.

- 5** Did the market behave in an efficient manner when Ikon Office Solutions reported its earnings per share?

Yes

But again the price drop of 29% seems to extreme for EPS being a few pennies short.