

## Learning Objectives

### Chapter 27

#### **In this chapter you will:**

- Learn the relationship between present value and future value
- Consider the effects of compound growth
- Learn how risk-averse people reduce the risk they face
- Learn some basic principles in pricing risk
- Learn how quantitative financial analysis played an increasing role in financial markets
- Learn the principle of the trade-off between risk and reward
- Analyse how asset prices are determined
- Evaluate the relevance of the efficient markets hypothesis

#### **You should be able to:**

- Explain the relevance of time in making financial decisions
- Choose between receiving a sum of money now or a larger sum of money two years from now, given a particular interest rate
- Explain why two people whose incomes grow at slightly different rates may end up with significantly different incomes after a number of years
- Explain the benefits of diversification
- Explain the role of quantitative analysis in assessing risk
- State the main characteristics of the efficient markets hypothesis
- Show why randomly choosing stocks may be as good as more sophisticated stock picking methods
- Provide an assessment of the efficient markets hypothesis