Answers to reading check #13

1. What's the name of the hypothesis is the central topic of this chapter, claim?

   The "efficient-markets hypothesis." It basically means that the market is unpredictible to any significant extent, because any difference between a stock's "real" value and its price would have already been found out by somebody, and taken into account. The invisible hand has already worked its magic, and there are no other inequities to exploit.

2. Let's say you decided to use the Manic Momentum strategy. What buying and selling choices would you make?

   If the stock market declines one day, sell everything (anticipating another declining day). If it rises, put all your money back in.

3. Across a number of disciplines in which lots of forecasters make quantitative predictions, what simple operation has been found to reduce forecast error, often by about 15 or 20 percent?

   Simply averaging everyone's forecast. This is known as the "wisdom of crowds."

4. What assumption is being made when forecasters use the technique in the previous question, and why is it so important?

   The independence of forecasts. Otherwise, you're not really getting the wisdom of crowds, but the wisdom of a hivemind.