

## Session 23

### Information Trading: Following the Insiders

#### *Test*

1. In publicly traded firms in the US, which of the following are classified as insiders by the Securities Exchange Commission (SEC)?
  - a. Directors in the company
  - b. Managers and executives in the company
  - c. Owners who own more than 5% of the outstanding shares in the company.
  - d. Investment banks/Consultants to the company
  - e. All of the above
2. Looking at studies on insider buying/selling, which of the following conclusions would you draw from them?
  - a. Stock prices are unaffected by insider buying (selling).
  - b. Stock prices go up after insider buying and down after insider selling.
  - c. Stock prices go down after insider buying and up after insider selling.
  - d. Stock prices go up more at companies where there is insider buying than they do at companies where there is insider selling.
3. If you decide to track insider trading, which of the following measures of insider activity would you use?
  - a. Total shares bought by all insiders
  - b. Total shares bought by top executives and directors.
  - c. Net shares traded (shares bought – shares sold) by all insiders
  - d. Net shares traded (shares bought – shares sold) by executives and directors.
4. In which of the following types of companies will tracking insider trading yield the biggest payoff?
  - a. Small, lightly followed companies in risky, changing businesses
  - b. Large, heavily followed companies in risky, changing businesses
  - c. Small, lightly followed companies in stable, predictable businesses
  - d. Large, heavily followed companies in stable, predictable businesses
5. Assume that you want to track illegal insider trading, rather than legal insider trading. Which of the following would you use as an indication of illegal insider activity?
  - a. A sudden increase in trading volume on the stock
  - b. An unexplained large increase/drop in the stock price
  - c. Increased activity in the options listed on the stock
  - d. A surge in institutional buying or selling on the stock
  - e. All of the above