The risk of decline in the price

Finance

4) There could be multiple reasons why this " free rating" would have angered the issuer of bonds. It could be because that the rating company is not familiar with the firm policies and has not taken into account some of the necessary information that would have given a completely different angle or picture to the bond rating. Similarly, the rating published by this company could have " put-off" some of the potential investors from investing in these bonds, and hence the issuer of the bonds would have lost some of the potential money that they could have borrowed by issuing bonds.

Chapter 8:

1)

i) True

ii) True

iii) True

iv) False

v) False

vi) False

vii) True

viii) False

ix) False

x) True

2) The logic behind this model is that dividend grows at a constant rate in perpetuity. By perpetuity, we mean that the dividend payments will continue forever and hence the value of the stock will be equal to next year's dividend divided by the required rate of return minus assumed dividend growth.

3) There are multiple reasons for that. The first reason is those preferred stockholders have an immediate claim on the company's profit which is

before the real owners of the company- ordinary stockholder. Similarly, the dividend percentage is fixed and if the company cannot pay it in the current year, it will have to pay it in the future. Similarly, their investment in the company does not give them any participation or voting rights, much like that of creditors.

4) Class B is a more tempting option for any investor as it gives him dividends for his investment in the company. Whereas, in class A there is no dividend which means that the future value of the investment is nil. So, as a rational investor, I would choose the Class B stock as it would give me both the participation rights and dividends. s