

Mid term securities analysis

Business



Grading Summary These are the automatically computed results of your exam.

Grades for essay questions, and comments from your instructor, are in the “Details” section below. | Date Taken: | 5/25/2012| Time Spent:| 2 h , 45 secs | Points Received:| 161 / 210 (76. 7%) | | Question Type:| # Of Questions:| # Correct:| Multiple Choice| 8| 7| Essay| 5| N/A| | | Grade Details| 1. |

Question ???? (TCO D) Find the current dividend on a stock, given that the required return is 8 percent, the dividend growth rate is 5 percent, and the stock price is \$50 per share. | | | Student Answer:| \$1.

75 | | \$2. 00 | | | \$1. 25 | | | \$1. 43 | | | | Comments:| | | | 2. | Question ???? (TCO D) Find the next dividend on a stock given that the required return is 9.

78 percent, the dividend growth rate is 7. 77 percent, and the stock price is \$94. 89 per share. | | | Student Answer:| \$2. 91 | | | \$0.

91 | | | \$1. 91 | | | \$1. 71 | | | | Comments:| | | |

3. | Question ???? (TCO D) A company has current assets of: cash \$500, accounts receivable \$200, and inventory \$400. The company also has current liabilities of: accounts payable \$300 and notes payable \$600.

What is the company’s quick ratio? | | Student Answer:| . 78 | | | . 88 | | | . 90 | | | . 55 | | | | Comments:| | | | 4. | Question ???? (TCO B) Behavioralists point

out that even if market prices are _____ there may be _____.

| | | Student Answer:| distorted; limited arbitrage opportunities | | | distorted; fundamental efficiency | | | allocationally efficient; limitless arbitrage opportunities | | | distorted; allocational efficiency | | | | Comments:| | | |

<https://assignbuster.com/mid-term-securities-analysis/>

5. | Question ???? (TCO B) The ratio of the average yield on 10 top-rated corporate bonds, to the average yield on 10 intermediate-grade bonds is called the _____.

|| | Student Answer:| bond price index | | | confidence index | | | relative strength index | | | trin ratio | | | | Comments:| | | |

6. | Question ???? (TCO A) ____ is not a derivative security. | | | Student Answer:| A share of common stock | | | A call option | | | A futures contract | | | All of the above are derivative securities. | | | | Comments:| | | | 7.

| Question ???? (TCO A) The maximum maturity on commercial paper is| | |

Student Answer:| 270 days | | | 180 days | | | 90 days | | | 30 days | | | |

Comments:| | | | 8. Question ???? (TCO A) You can tax shelter only one-half of

your retirement savings. You want to invest one-half of your savings in bonds and one-half in stocks. How much of the bonds and how much of the stocks

should you allocate to the tax sheltered investment? | | | Student Answer:|

Stock and bond investments should be equally invested in both tax sheltered and non-sheltered accounts. | | |

You should place all the stocks in tax sheltered accounts and all the bonds in non-sheltered accounts.

| | | You should place all the bonds in tax sheltered accounts, and all the stocks in non-sheltered accounts. | | It makes no difference how you allocate your stock and bond investments among tax sheltered and non-sheltered accounts. | | | | Comments:| | | | 9. | Question ???? (TCO I) CAPM is one of the

more popular models for determining the risk premium on a stock. If the Expected Return on the Stock is 20.

38 percent, the Risk-Free Rate is 9.0 percent, and the Beta for Stock i is 1.75. Find the Expected Return on the market using the CAPM model. Show your work.

||| Student Answer: | $r_s = r_{RF} + (R_{Pm})b$. 2038 = .09 + (R_{Pm})*1.75 . 2038 - .09/1.

75 = (R_{Pm}) . 650 = R_{Pm} The Expected Return on the market using the CAPM model is 6.50% ||| Comments: | (20.38 - 9) / 1.75 + 9 = 15.

5% Chapter 7 pages 205-209 ||| 10. | Question ???? (TCO D) XYZ company paid a dividend of \$4.66 in the past 12 months. The annual dividend growth rate is 6.93 percent, and the required rate of return on the stock is 10.

25 percent. Calculate the current price of the stock. Do not use a financial calculator or an online calculator. You must show your work. |||

Student Answer: | | To calculate the current price of a stock we use the following formula $P = D_1 / (k - g)$ $P = 4.$

66 / (.025 - .0693) = \$140.36 ||| Comments: | ||| 11. | Question ???? (TCO D) Company XYZ is expected to grow at 10% annually forever, and its dividend in the next 12 months is expected to be \$2.50, and its required rate of return is 17.

5%. a. What is its intrinsic value?. b. If the current price is equal to its intrinsic value, what is next year's expected price?. c.

Assume you buy the stock now and sell it after receiving the \$2.50 dividend one year from now. What would be your anticipated capital gain in

percentage terms? . What is the dividend yield and the holding period return?. | | Student Answer:| | a) $V_0 = D_1 / (k - g) = 2.50 / (.175 - .10) = 33.33$

b) The dividend in year 2 will be $D_2 = 2.50(1.10) = \$2.75$, therefore $P_1 = 2.75 / (.175 - .10) = \36.67 c) $36.67 - 33.33 = 3.34$, capital gain percentage will be $3.34 / 33.33 = 10.02\%$, the dividend yield will be $2.50 / 33.33 = 7.5\%$ | | | Comments:| | | 12.

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Question ???? (TCO E) In the past 10 years, Behavioral Finance has begun to explain the qualitative side of market movements and investor decisions.

Explain the concept and the value it can provide to the investment markets. |

| Student Answer:| | The argument of behavioral finance is that straight financial theory ignores how real people make decisions and that people make a difference. Economists realize the anomalies of investors with several irrationalities, for example the dot com era and the housing. What this focuses on is on the emotional factors that affect the investors' behavior.

How can this help us? If we as investors turn to be knowledgeable on this matter we could identify when another of these booms happen and we could be more careful and not let our emotions do the buying.

In my opinion we just past thru this with the FB IPO where I believe the majority of individual investors were lead by the emotions and not for their knowledge | | | Comments:| | | 13. | Question ???? (TCO B) Although the

Efficient Markets Hypothesis is a popular theory, there are several

limitations. Identify and explain two of those limitations. | | | Student Answer:| | The magnitude issue which considers how big of a return a fund manager can obtain compare to that of the fund assets. For instance the text book uses an example of an \$5B fund receiving \$5M annually would be only a .

% increase, however it doesn't reflect the small return until we calculate it percentage wise. Another limitation would be the lucky event issue. The success of this hypothesis depends on the strength of several situations, for example the balanced investment decisions, independent investment decisions, and arbitrage. Who knew that Apple stock was going to reach this level, people who bought it back in 2008 at \$80 were some of this lucky investor, but now we need to see if it maintains its current price or if it will go down again. | | | Comments:| | |