Stock split essay

A stock split, similar to a stock dividend involves issuance of additional shares to the existing shareholders based on their respective shareholding. This means that a holder of 10, 000 shares before a stock split will now own 30, 000 if the split is 3 for every 1 held. When there is a stock split, the effect is a reduction in the par/stated value o the shares. Most companies will split their stocks when the price are too high so that they increase the marketability of the stock by creating additional demand fro the share since a split will result in a lower price per share.

When a company does a 3: 1 stock split, the what this means is that the number of shares held by a shareholder increases three fold while the market price of the share increase three times compared to the value before the split. This means that the value of the shares held remain the same unless the price increases following the spit driven by a higher demand for the same share.

When the share company affects the share split, the value of the company remains the same, at 5 billion, since although the number of issued stocks increase, the par value and the market price of the shares reduces proportionately. Both the par and the market price per share will reduce by a third. The number of shares outstanding on the other hand will increase to $300 million.

If the actual market price immediately following the split is $17. 00 per share and this price is greater than a third of the price that the share was selling for before the split, it means that the market is efficient and price elastic since a lower price in the stock will create more demand for a stock. This means that the price of the share will increase if the demand created by the additional demand is greater than the additional number of shares created by the split.