

# Stock and company



Week 7 Chapter 6: Investors in the Share Market True/False QUESTIONS 1.

Investing in shares of publicly listed corporations should, on average, over time provide a higher return than investing in fixed-interest securities. A. True b. False

2. Investments through a stock exchange are limited to

ordinary shares issued by listed corporations. A. True b. False

3. Portfolio theory contends that a diversified share portfolio enables an investor to

significantly reduce the portfolio's exposure to systematic risk. A. True b.

False

4. A share that has a beta of one is twice as risky as an average share

listed on a stock market. A. True b. False

5. Shares that typically demonstrate a negative price correlation will usually move in the same direction if new

economic information comes to the market. A. True b. False

6. With dividend imputation, a shareholder with a marginal tax rate that is lower than the

company tax rate will pay no tax on a fully franked dividend received, and

the excess credit can be applied against other assessable income. A. True b.

False

7. A company's liquidity, that is, its ability to meet its short-term

financial obligations, may be measured using the current ratio and the liquid

ratio. Of the two ratios, the latter is the more triggering measure. A. True b. False

8. It can be safely inferred that a company with a low current ratio is a riskier

investment than a company with a high current ratio. A. True b. False

9. In comparing the profitability of different companies that have quite different

financial structures, the use of the BIT to total funds employed ratio would be

more suitable than the BIT to shareholders' funds ratio. MAP 702 Lecture 7

(Topic 7) Macs and TIFF Questions Page 1 a. True b. False

Given that the banking sector consistently displays a higher debt- to-equity ratio than do other sectors of the market, it can be reasonably concluded that there is a greater level of risk associated with investments in this sector. A. True b. False

11. A price to net tangible assets ratio of less than one indicates that the book value of the company's assets exceeds the market's valuation of the company. A. True b. False

12. A sensible investor would prefer to buy shares in a company that has a low price to earnings ratio, since this ensures that the investor will receive a relatively good return on the price paid for the share. . True b. False

13. A company announces the payment of an interim dividend of \$0. 20 per share. The UCM-dividend shares are trading at \$5. 40. The theoretical ex-dividend price will be \$5. 60. A. True b. False

14. The issue of bonus shares merely changes the composition of the firm's equity; bonus issues do not add to the firm's capital. A. True b. False

15. In a one-for- nine bonus issue, if the UCM-bonus price of the share was \$10, then the theoretical ex-bonus price would be \$9. A. True b. False

Multiple Choice 1 . Passive investment means building a portfolio of shares based on the strategy of: A. Buy and hold B. Replicating a market index C.

Following solely the advice of share brokers D. Investing in low-risk shares

2. Investors buy listed shares: A. To obtain fixed dividend payments B. To obtain fixed capital growth C. For the chance of capital growth only D. For

the chance of dividend payments and capital growth

MAP 702 Lecture 7 (TOPIC 7) MACS and TIF Questions Page 2 3. Compared with fixed interest securities, shares offer: A. Capital gain for lower risk B. Capital gain for

higher risk C. Fixed dividends and capital gains for lower risk D. Periodic dividends and capital gains at higher risk

A diversified portfolio generally includes: A. 0-5 stocks B. 5-10 stocks C. 10-15 stocks D. 10-25 stocks

5. Share winnowers of listed companies on the Australian Securities Exchange (ASX) has remained relatively constant across various sectors of the market over the past few years. Which of the following ownership groupings is the largest investor in Australian equities? A. Financial institutions, including insurance companies and superannuation funds B. Households and unincorporated enterprises C. Government: Commonwealth, state and government trading enterprises D.