6.04 Overview Of Equity Securities

Question 1
Which of the following *best* describes a management buyout?
A. Management takes the company private
B. Outside shareholders install new management
C. Private equity investors buy out management's shares

Question 2
Which of the following *best* describes a characteristic of preference shares?
A. They cannot be callable or putable.
B. Their regular dividends are fixed at issuance.
C. They legally obligate the issuer to make regular dividend payments.

Question 3
All else equal, a company's return on equity will *most likely* decrease if:
A. its stock price significantly decreases.
B. it issues large amounts of new common shares.
C. its net income increases at a faster rate than its book value of equity.

Question 4
Investors' required rate of return on common shares is *most likely* used to estimate a company's:
A. cost of equity.
B. return on equity.
C. book value of equity.

Question 5
Voting rights attached to sponsored depository receipts *most likely* belong to:
A. the depository bank.
B. the investor of the depository receipts.
C. the company that the depository receipts were issued for.

Question 6
The priorities that preferred shareholders have compared to common shareholders are *least likely* related to:
A. voting rights.
B. payment of dividends.
C. claim on assets upon liquidation.

Question 7
A group of investors use a large amount of debt financing to purchase all the shares of a company's publicly traded stock. The investors are *most likely* executing a:

A. leveraged buyout.
B. venture capital transaction.
C. private investment in public equity.

Question 8
When investing in nondomestic equities, an advantage of global registered shares over unsponsored depository receipts is *most likely* the:
A. retention of full voting rights.
B. receipt of 100% of dividend payouts.
C. reduced exposure to exchange rate risk.

Question 9
If a company's cost of equity differs from an equity investor's required rate of return, which of the following *best* explains that difference?
A. A company's future cash flows are uncertain and unknown
B. The company announces that it plans to undertake riskier projects
C. Cost of equity is calculated after tax since dividends are tax deductible

Question 10
All else equal, if the actual return from investing in a company's stock is less than the investors' minimum required rate of return, which of the following is *most likely* to increase? The company's:
A. cost of debt.
B. cost of equity.
C. return on equity.

Question 11
Participating preference shares allow preferred shareholders to:
A. vote in annual board of director elections.
B. receive additional dividends if profits exceed a threshold.
C. sell shares back to the company at a predetermined price.

Question 12
A depository receipt allows a local investor to invest in:
A. local securities through a foreign exchange.
B. foreign securities through a local exchange.
C. foreign securities through a foreign exchange.

Question 13
Which of the following statements *best* describes a feature of callable common shares? Callable common shares give:
A. investors the right to purchase shares of common stock.
B. issuers the right to buy back shares of common stock from investors.
C. investors the right to sell shares of common stock back to the issuer.

Question 14
A foreign company is considering listing its shares on a US exchange as an American depository receipt (ADR). The company wants to raise capital in the near future through a public offering of the ADR. Which of the following is the *most appropriate* type of ADR to meet this need?
A. Level I
B. Level II
C. Level III

Question 15
Which of the following *best* describes a characteristic of common stock?
A. It gives the investor an ownership stake in the issuing company.
B. It obligates the issuer to repay the amount received from shareholders.
C. It does not allow shareholders to participate in the decision-making process.

Question 16
A company uses the proceeds from newly issued bonds to buy back common shares. Holding all else constant, including the common dividend per share, if return on equity increases, the increase is *most likely* the result of:
A. book value of equity declining proportionally more than net income.
B. net income increasing due to the increase in tax-deductible interest expense.
C. total dividend payments decreasing, resulting in an increase in shareholders' equity.

Question 17
Level I sponsored ADRs are *most likely*:
A. to trade over-the-counter (OTC).
B. used to raise new US equity capital.
C. subject to the most stringent SEC filing requirements.

Question 18
Which of the following *best* describes a fundamental difference between preference shares and common shares?
A. Preference shares carry more voting rights than common shares.
B. Common shares typically have larger dividends than preference shares.
C. Preference shareholders receive dividends before common shareholders.

Question 19
Holding all other factors constant, an issuance of common stock is *most likely* to result in an increase to the company's:
A. total assets.
B. return on equity.
C. intrinsic value per share.

Question 20
A business student gathers the following information on a company:

Selected Data

(GBP *millions*)	20X1	20X2	20X3
EBITDA	45	50	40
Net income	40	35	45
Assets	500	480	500
Liabilities	200	210	230
Market value of equity	450	405	687

If return on equity (ROE) is calculated using average amounts from the balance sheet, then the ROE in 20X3 *most accurately*:
A. improved from 20X2.
B. did not change from 20X2.
C. worsened from 20X2.

Question 21
Which of the following is *least likely* a characteristic of a good candidate for a leveraged buyout?
A. High levels of cash flow
B. Large amounts of undervalued assets
C. High market value relative to book value

Question 22
With respect to cumulative preference shares, dividends that were not paid in prior periods are *most likely*:
A. forfeited and not paid to cumulative preference shareholders in the future.
B. accrued and paid to cumulative preference shareholders in the future before paying common shareholders.
C. accrued and paid to cumulative preference shareholders in the future only after paying common shareholders.

Question 23
In contrast to statutory voting, cumulative voting allows common shareholders to cast:
A. more total votes.
B. all votes for one candidate.
C. one vote for multiple candidates.

Question 24
Which of the following is *most likely* a feature of preference shares?
A. Call features allow issuers the right to buy back shares from investors.
B. Convertible shares allow shareholders to convert shares into subordinated debt.
C. Participating shares provide shareholders the same voting rights as common shares.

Question 25
Compared with a company's common shares, its nonparticipating, nonconvertible preferred stock *most likely* has:
A. a greater dividend yield.
B. a greater expected return.
C. greater share price volatility.