

Assignment - 15

Define stock split with examples.

A stock split is a corporate action in which a company divides its existing shares into multiple shares to increase the number of shares outstanding. This is typically done to make shares more affordable to a wider range of investors. Although the number of shares increases, the overall market capitalization and the total value of each shareholder's investment remain the same immediately after the split.

Example 1: 2 for 1 stock split.

In a 2-for-1 stock split, every existing share is divided into two shares.

* Before the split: you own 100 shares at \$80 per share

* After the split: you will have 200 shares at \$40 per share.

Total investment value remains the same

$100 \text{ shares} \times \$80 = \$8,000$ before the split

$200 \text{ shares} \times \$40 = \$8,000$ after the split.

Example 2: 3-for-1 stock split.

In a 3-for-1 stock split, each existing share is divided into three shares.

* Before the split; you own 50 shares
as \$150 per shares.

* After the split; you will have 150
shares at \$50 per share.

- Total investment value remains unchanged:

50 shares \times \$150 = \$7,500 before the split.

150 shares \times \$50 = \$7,500 after the split.

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