

Assignment - 15

Define stock split with example:

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. 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 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 at £150 per share

After the split: you will have 150 shares at £50 per share

Total investment value remains unchanged

$$50 \text{ share} \times £150 = £7500 \text{ before split}$$

$$150 \text{ share} \times £50 = £7500 \text{ after split.}$$

