Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** You own 110 shares of stock in Halestorm, Incorporated, that currently sells for $81.40 per share. The company has announced a dividend of $2.70 per share with an ex-dividend date of February 4. Assuming no taxes, what is the value of the stock on February 4?

1) \_\_\_\_\_\_

A) $81.40   
 B) $77.65  
 C) $80.05  
 D) $84.10  
 E) $78.70

**2)** You own 110 shares of stock in Green Mild Chili Peppers, Incorporated, that currently sellfor $47.70 per share. The company has announced a dividend of $1.87 per share with an ex-dividend date of May 3. Assuming no taxes, what is the value of your portfolio on May 3?

2) \_\_\_\_\_\_

A) $4,922.00   
 B) $205.70  
 C) $5,041.30  
 D) $5,247.00  
 E) $5,316.30

**3)** A company has declared a dividend of $7.05 per share on its stock. Capital gains are not taxed. Suppose the IRS has issued a new regulation that requires taxes of 20 percent be withheld at the time the dividend is paid. The stock currently sells for $113.05 per share. What will the ex-dividend price be?

3) \_\_\_\_\_\_

A) $107.41   
 B) $113.05  
 C) $111.64  
 D) $106.00  
 E) $109.53

**4)** The stock of Red's Hardware closed at $59.85 per share today. Tomorrow morning, the stock goes ex-dividend, paying a dividend of $2.25 per share. The tax rate on dividends is 15 percent. All else the same, what price will the stock open at tomorrow morning?

4) \_\_\_\_\_\_

A) $58.73   
 B) $59.85  
 C) $57.60  
 D) $59.51  
 E) $57.94

**5)** A firm has a market value equal to its book value. Currently, the firm has excess cash of $7,000 and other assets of $21,000. Equity is worth $28,000. The firm has 600 shares of stock outstanding and net income of $2,400. What will the stock price per share be if the firm pays out its excess cash as a cash dividend?

5) \_\_\_\_\_\_

A) $35   
 B) $64  
 C) $39  
 D) $43  
 E) $60

**6)** Bowzer Company has just received $4.3 million from the sale of one of its divisions. The company has 455,000 shares outstanding that sell for $86.37 per share. If the company issues the entire proceeds from the sale as a special dividend, what will the ex-dividend stock price be? Ignore taxes.

6) \_\_\_\_\_\_

A) $86.26   
 B) $78.84  
 C) $76.92  
 D) $86.37  
 E) $95.82

**7)** Storico currently has 23,000 shares outstanding that sell for $46.36 per share. The company plans to issue a stock dividend of 17.5 percent. How many new shares will be issued?

7) \_\_\_\_\_\_

A) 4,025 shares   
 B) 4,275 shares  
 C) 4,165 shares  
 D) 27,025 shares  
 E) 23,000 shares

**8)** Westhaven Corporation currently has 24,000 shares outstanding that sell for $56 per share. The company plans to issue a stock dividend of 20 percent. The stock has a par value of $1. What is the total capital surplus on the new shares?

8) \_\_\_\_\_\_

A) $264,000   
 B) $4,800  
 C) $230,400  
 D) $268,800  
 E) $283,300

**9)** Murphy's, Incorporated, has 31,850 shares of stock outstanding with a par value of $1 per share. The market value is $13 per share. The balance sheet shows $87,650 in the capital in excess of par account, $31,850 in the common stock account, and $145,950 in the retained earnings account. The firm just announced a stock dividend of 12 percent. What will the market price per share be after the dividend?

9) \_\_\_\_\_\_

A) $11.61   
 B) $12.61  
 C) $13.00  
 D) $13.50  
 E) $12.50

**10)** Murphy's, Incorporated, has 60,000 shares of stock outstanding with a par value of $1 per share. The market value is $10 per share. The balance sheet shows $72,000 in the capital in excess of par account, $60,000 in the common stock account, and $136,500 in the retained earnings account. The firm just announced a stock dividend of 12 percent. What will the balance in the capital in excess of par account be after the dividend?

10) \_\_\_\_\_\_

A) $129,600   
 B) $192,000  
 C) $71,700  
 D) $136,800  
 E) $144,000

**11)** Robinson's has 38,000 shares of stock outstanding with a par value of $1 per share and a market price of $58 a share. The balance sheet shows $38,000 in the common stock account, $475,000 in the paid in surplus account, and $450,000 in the retained earnings account. The firm just announced a 5-for-2 stock split. How many shares of stock will be outstanding after the split?

11) \_\_\_\_\_\_

A) 94,500 shares   
 B) 152,000 shares  
 C) 79,800 shares  
 D) 95,000 shares  
 E) 15,200 shares

**12)** Weiland, Incorporated, has 470,000 shares outstanding that sell for $97 per share. The company plans a 3-for-1 stock split. How many shares will be outstanding after the split?

12) \_\_\_\_\_\_

A) 156,667 shares   
 B) 1,880,000 shares  
 C) 940,000 shares  
 D) 1,410,000shares  
 E) 1,645,000 shares

**13)** A company has 300,000 shares outstanding that sell for $79.97 per share. The company plans a 5-for-2 stock split. Assuming no market imperfections or tax effects, what will the stock price be after the split?

13) \_\_\_\_\_\_

A) $199.93   
 B) $31.61  
 C) $31.99  
 D) $26.66  
 E) $36.56

**14)** BGA has 225,000 shares outstanding that sell for $18 per share. The company plans a 2-for-5 reverse stock split. How many shares will be outstanding after the split?

14) \_\_\_\_\_\_

A) 75,000 shares   
 B) 562,500 shares  
 C) 102,857 shares  
 D) 75,000 shares  
 E) 90,000shares

**15)** LTE stock sells for $27.81 per share and there are 300,000 shares outstanding. The company plans a 5-for-2 reverse stock split. Assuming no market imperfections or tax effects, what will the stock price be after the split?

15) \_\_\_\_\_\_

A) $9.27   
 B) $11.12  
 C) $69.53  
 D) $61.80  
 E) $83.43

**16)** A firm has a market value equal to its book value. Currently, the firm has excess cash of $1,000 and other assets of $5,500. Equity is worth $6,500. The firm has 650 shares of stock outstanding and net income of $1,400. The firm has decided to spend all of its excess cash on a share repurchase program. How many shares of stock will be outstanding after the stock repurchase is completed?

16) \_\_\_\_\_\_

A) 550 shares   
 B) 570 shares  
 C) 660 shares  
 D) 560 shares  
 E) 460 shares

**17)** Bo's Home Manufacturing has 360,000 shares outstanding that sell for $45.71 per share. The company has announced that it will repurchase $56,000 of its stock. What will the share price be after the repurchase?

17) \_\_\_\_\_\_

A) $39.86   
 B) $45.71  
 C) $45.87  
 D) $45.55  
 E) $42.86

**18)** A firm has a market value equal to its book value. Currently, the firm has excess cash of $1,050 and other assets of $13,200. Equity is worth $14,250. The firm has 950 shares of stock outstanding and net income of $1,200. What will the new earnings per share be if the firm uses its excess cash to complete a stock repurchase?

18) \_\_\_\_\_\_

A) $1.19   
 B) $1.03  
 C) $1.26  
 D) $1.36  
 E) $2.39

**19)** Boats and Bait has 79,000 shares outstanding that sell for a price of $75 per share. The stock has a par value of $2 per share. The company's balance sheet shows capital surplus of $190,000 and retained earnings of $230,000. If the company declares a stock dividend of 20 percent, what is the new common stock value on the balance sheet?

19) \_\_\_\_\_\_

A) $189,600   
 B) $417,600  
 C) $504,000  
 D) $228,000  
 E) $693,600

**20)** Quaker State Wings has 305,000 shares outstanding and net income of $965,000. The company stock is currently selling for $66.36 per share. If the company repurchases $631,000 of its stock, what is the earnings per share after the repurchase?

20) \_\_\_\_\_\_

A) $3.16   
 B) $3.43  
 C) $3.31  
 D) $3.36  
 E) $3.27

**21)** Green Thumb Nursery has 44,000 shares outstanding at a market price of $63.39 per share. The earnings per share are $3.39. The firm has total assets of $344,000 and total liabilities of $198,000. Today, the firm announced a share repurchase for $99,000 of its stock. What is the earnings per share after the repurchase?

21) \_\_\_\_\_\_

A) $3.29   
 B) $3.58  
 C) $3.64  
 D) $3.39  
 E) $3.51

**22)** The Cincinnati Chili Kitchen has just announced the repurchase of $150,000 of its stock. The company has 44,000 shares outstanding and earnings per share of $3.39. The company stock is currently selling for $76.74 per share. What is the price–earnings ratio after the repurchase?

22) \_\_\_\_\_\_

A) 21.63 times   
 B) 23.64 times  
 C) 22.64 times  
 D) 21.01 times  
 E) 23.14 times

**23)** Cookies and Cream has 56,000 shares outstanding at a market price of $92.48. What will the share price be if the company declares a stock dividend of 20 percent?

23) \_\_\_\_\_\_

A) $77.07   
 B) $110.98  
 C) $84.77  
 D) $92.48  
 E) $80.92

**24)** Heidi owns 840 shares of Boyd Enterprises, which is priced at $66.56 per share. The company plans a 5-for-3 stock split. How many shares will Heidi own and what will the share price be after the stock split?

24) \_\_\_\_\_\_

A) 504; $39.94   
 B) 504; $110.93  
 C) 1,400; $39.94  
 D) 1,400; $66.56  
 E) 1,400; $110.93

**25)** Timothy owns 820 shares of Countess Corporation, which is priced at $14.09 per share. The company plans a 2-for-5 reverse stock split. How many shares will Timothy own and what will the share price be after the reverse stock split?

25) \_\_\_\_\_\_

A) 328; $5.64   
 B) 328; $35.23  
 C) 2,050; $5.64  
 D) 328; $14.09  
 E) 2,050; $35.23

**26)** River & Wood is an outdoors-focused firm with excellent prospects for growth. The firm’s management wants to acknowledge the loyalty of its shareholders but must use all of the firm’s available cash to fund its rapid growth. The market price of its stock is currently at the upper end of its preferred trading range. Given this situation, a(n) \_\_\_\_\_\_\_\_ is the firm’s best choice.

26) \_\_\_\_\_\_

A) liquidating dividend   
 B) extra cash dividend  
 C) reverse stock split  
 D) stock dividend  
 E) cash distribution

**27)** \_\_\_\_\_\_\_\_ are payouts of earnings, in the form of cash or stock, that are made to a firm’s owners.

27) \_\_\_\_\_\_

A) Dividends   
 B) Distributions  
 C) Share repurchases  
 D) Payments-in-kind  
 E) Stock splits

**28)** A(n) \_\_\_\_\_\_\_\_ is a cash payment made by a firm to its owners in the normal course of business.

28) \_\_\_\_\_\_

A) share repurchase   
 B) liquidating dividend  
 C) regular cash dividend  
 D) special dividend  
 E) extra cash dividend

**29)** Assume a firm sells off some of its long-term assets and distributes the proceeds to its owners. The cash payment to the owners is called a(n)

29) \_\_\_\_\_\_

A) liquidating dividend.   
 B) regular cash dividend.  
 C) special dividend.  
 D) extra cash dividend.  
 E) share repurchase.

**30)** Assume a firm made a payment to its owners in the form of new shares of stock. The transaction is called a(n) \_\_\_\_\_\_\_\_ dividend.

30) \_\_\_\_\_\_

A) stock   
 B) normal  
 C) special  
 D) extra  
 E) liquidating

**31)** A(n) \_\_\_\_\_\_\_\_ is simultaneously a cash payment shareholders, an alternative to cash dividends, and a method used to pay a firm’s earnings to shareholders.

31) \_\_\_\_\_\_

A) merger   
 B) acquisition  
 C) payment-in-kind  
 D) stock split  
 E) stock repurchase

**32)** The last date on which an investor could purchase shares of stock and still receive the dividend is the date \_\_\_\_\_ business day(s) prior to the date of record.

32) \_\_\_\_\_\_

A) zero   
 B) one  
 C) two  
 D) five  
 E) seven

**33)** Tasneem purchased 100 shares of Bentwood stock on June 7th. Andre purchased 100 shares of Bentwood stock on Monday, July 9th. Bentwood declared a dividend on June 20th to shareholders of record on July 13th that is payable on August 1st. Which one of the following statements concerning the dividend paid on August 1st is correct given this information?

33) \_\_\_\_\_\_

A) Neither Tasneem nor Andre are entitled to the dividend.   
 B) Tasneem is entitled to the dividend but Andre is not.  
 C) Andre is entitled to the dividend but Tasneem is not.  
 D) Both Andre and Tasneem are entitled to the dividend.  
 E) Both Andre and Tasneem are each entitled to one-half of the dividend amount.

**34)** Ignoring taxes and all else held constant, on the \_\_\_\_\_\_\_\_, the market value of a stock should decrease by the amount of the dividend.

34) \_\_\_\_\_\_

A) dividend declaration date   
 B) ex-dividend date  
 C) date of record  
 D) date of payment  
 E) day after the date of payment

**35)** The \_\_\_\_\_\_\_\_ equals the annual dividend per share stated as a percentage of the annual earnings per share.

35) \_\_\_\_\_\_

A) dividend yield   
 B) dividend per share  
 C) annual yield  
 D) dividend rate  
 E) dividend payout ratio

**36)** On the \_\_\_\_\_\_\_\_ date, the board of directors passes a resolution authorizing payment of a dividend to the shareholders.

36) \_\_\_\_\_\_

A) ex-rights   
 B) ex-dividend  
 C) record  
 D) payment  
 E) declaration

**37)** Before the \_\_\_\_\_\_\_\_ date, a purchaser of stock is entitled to receive a declared dividend, but on or after that date they cannot.

37) \_\_\_\_\_\_

A) ex-rights   
 B) ex-dividend  
 C) record  
 D) payment  
 E) declaration

**38)** A stockholder must be registered on the firm’s list as having share ownership by the \_\_\_\_\_\_\_\_ in order to receive a declared dividend.

38) \_\_\_\_\_\_

A) ex-rights date   
 B) ex-dividend date  
 C) date of record  
 D) date of payment  
 E) declaration date

**39)** The date on which a firm actually distributes a declared dividend is called the:

39) \_\_\_\_\_\_

A) ex-rights date.   
 B) ex-dividend date.  
 C) date of record.  
 D) date of payment.  
 E) declaration date.

**40)** Which one of the following choices reports dividend events in the correct chronological order, from earliest to latest?

40) \_\_\_\_\_\_

A) Date of record, declaration date, ex-dividend date   
 B) Date of record, ex-dividend date, declaration date  
 C) Declaration date, date of record, ex-dividend date  
 D) Declaration date, ex-dividend date, date of record  
 E) Ex-dividend date, date of record, declaration date

**41)** Miller and Modigliani’s dividend-irrelevance proposition depends on which one of the following relationships between investment policy and dividend policy?

41) \_\_\_\_\_\_

A) The level of investment does not influence or matter to the dividend decision.   
 B) Once dividend policy is set the investment decision can be made.  
 C) The investment policy is set ahead of time and not altered by changes in dividend policy.  
 D) Since dividend policy is irrelevant there is no relationship between investment policy and dividend policy.  
 E) Miller and Modigliani were only concerned about capital structure.

**42)** The ability of shareholders to undo the dividend policy of a firm and create an alternative dividend payment policy by reinvesting dividends or selling shares of stock is referred to as:

42) \_\_\_\_\_\_

A) the perfect foresight model.   
 B) MM Proposition I.  
 C) capital structure irrelevancy.  
 D) homemade leverage.  
 E) homemade dividends.

**43)** Which one of the following statements is true?

43) \_\_\_\_\_\_

A) Dividends are irrelevant.   
 B) Shareholders are unable to personally adjust the dividend policy set by a firm.  
 C) According to Miller and Modigliani, a firm should alter its investment policy whenever a change is made in its dividend policy.  
 D) Dividend policy is relevant.  
 E) Firms should never give up a positive NPV project to increase a dividend.

**44)** A firm has announced that it is willing to repurchase a number of shares at various prices. Shareholders can indicate how many shares they are willing to sell at each of the various prices. This process is called a:

44) \_\_\_\_\_\_

A) homemade dividend.   
 B) tender offer.  
 C) free market sale.  
 D) Dutch auction.  
 E) targeted repurchase.

**45)** A firm can repurchase its shares in all the following ways *except* through:

45) \_\_\_\_\_\_

A) a tender offer.   
 B) a reverse stock split.  
 C) a targeted repurchase.  
 D) open market purchases.  
 E) a Dutch auction.

**46)** Ignore commissions, taxes, and other imperfections. If a firm substitutes a repurchase for a cash dividend, the primary difference will be an increase in the:

46) \_\_\_\_\_\_

A) earnings per share.   
 B) total value received by each investor.  
 C) total earnings of the firm.  
 D) excess cash reserves of the firm.  
 E) number of shares outstanding.

**47)** Which one of the following is *not* a reason why firms choose repurchases rather than dividends?

47) \_\_\_\_\_\_

A) provide flexibility to the firm   
 B) increase the value of existing stock options  
 C) provide shareholders with a tax advantage  
 D) offset dilution  
 E) conserve cash

**48)** Assume personal tax rates are lower than corporate tax rates. From a tax-paying shareholder’s point of view, after the firm has funded all positive net present value projects, how should the firm spend its excess cash?

48) \_\_\_\_\_\_

A) Repurchase shares   
 B) Acquire another firm  
 C) Purchase financial assets  
 D) Increase cash dividends  
 E) Increase executive compensation

**49)** From a tax-paying investor’s point of view, a stock repurchase:

49) \_\_\_\_\_\_

A) is equivalent to a cash dividend if the stock is held for more than one year.   
 B) is more desirable than a cash dividend if the stock is held for more than one year.  
 C) has the same tax effects as a cash dividend.  
 D) is more highly taxed than a cash dividend.  
 E) creates a tax liability even if the investor does not sell any of the shares he owns.

**50)** A scenario exists that supports an argument in favor of a low dividend policy when:

50) \_\_\_\_\_\_

A) tax laws allow capital gains to be deferred until the gain is realized.   
 B) few, if any, positive net present value projects are available to a firm.  
 C) a preponderance of stockholders have minimal taxable income.  
 D) the majority of the stockholders have other investment opportunities that offer higher rewards with similar risk characteristics.  
 E) corporate tax rates exceed personal tax rates.

**51)** The market’s reaction to the announcement of a change in the firm’s dividend payout is referred to as:

51) \_\_\_\_\_\_

A) the information content effect.   
 B) the clientele effect.  
 C) the efficient markets hypothesis.  
 D) MM Proposition I.  
 E) MM Proposition II.

**52)** Which one of the following is cited as an argument favoring a high dividend payout?

52) \_\_\_\_\_\_

A) Flotation costs involved with a new securities issue   
 B) High personal tax rates relative to corporate rates  
 C) Desire to maintain constant dividends over time  
 D) Restrictive covenant on dividend payouts contained in a bond indenture agreement  
 E) Agency costs related to excess cash reserves

**53)** The information content of a dividend increase generally signals that:

53) \_\_\_\_\_\_

A) the firm has a one-time surplus of cash.   
 B) the firm has several net present value projects to pursue.  
 C) management believes the future earnings of the firm will be strong.  
 D) the firm has more cash than it needs due to sales declines.  
 E) future dividends will be lower.

**54)** The behavioral finance concept of self-control is an argument in favor of:

54) \_\_\_\_\_\_

A) frequent stock splits.   
 B) low cash dividends.  
 C) stock dividends.  
 D) reverse stock splits.  
 E) high cash dividends.

**55)** The information content effect implies that stock prices will rise when dividends are increased provided that the dividend increase:

55) \_\_\_\_\_\_

A) is denoted as a one-time event.   
 B) causes stockholders to increase their expectations of future cash flows.  
 C) is greater than the average historical dividend increase.  
 D) is substantial in both dollar amount and percentage terms.  
 E) is combined with a stock repurchase.

**56)** The \_\_\_\_\_\_\_\_ refers to the observed empirical fact that stocks attract particular investors based on the firm’s dividend policy and the resulting tax impact on those investors.

56) \_\_\_\_\_\_

A) information content effect   
 B) clientele effect  
 C) efficient markets hypothesis  
 D) MM Proposition I  
 E) MM Proposition II

**57)** Based on the concept of the clientele effect, which one of these combinations correctly aligns an investor group with its preferred type of stocks?

57) \_\_\_\_\_\_

A) Low-tax-bracket individuals; zero-to-low payout stocks   
 B) High-tax-bracket individuals; low-to-medium payout stocks  
 C) Corporations; low-to-medium payout stocks  
 D) Tax-free institutions; medium-payout stocks  
 E) High-tax-bracket individuals; high-payout stocks

**58)** According to the clientele effect, firms can boost their stock price only:

58) \_\_\_\_\_\_

A) by increasing the dividend payout ratio.   
 B) by increasing their regular cash dividends.  
 C) by setting their dividend to the level expected by the highest-dividend-receiving satisfied clientele group.  
 D) by commencing dividend payments if they are a non-dividend-paying firm.  
 E) if an unsatisfied clientele group exists.

**59)** Of the following factors, which one is considered to be the primary factor affecting a firm’s dividend payout decision?

59) \_\_\_\_\_\_

A) Considering the personal taxes of company stockholders   
 B) Maintaining a consistent dividend policy  
 C) Attracting retail investors  
 D) Attracting institutional investors  
 E) Avoiding flotation costs

**60)** Financial managers:

60) \_\_\_\_\_\_

A) are reluctant to cut dividends.   
 B) tend to ignore past dividend policies.  
 C) tend to prefer cutting dividends every time quarterly earnings decline.  
 D) prefer cutting dividends over incurring flotation costs.  
 E) place little emphasis on dividend policy consistency.

**61)** Which one of the following statements is correct?

61) \_\_\_\_\_\_

A) In the U.S. economy, dividends are quite insignificant.   
 B) Over the last few decades, the percentage of U.S. firms paying dividends has increased.  
 C) The tax law change in May 2003 is cited as one reason why the percentage of dividend payers has decreased in the U.S.  
 D) Dividends are more tax-advantaged than capital gains as of 2017.  
 E) Much of the dividend income paid in the U.S. is related to a relatively small number of firms.

**62)** Firms generally:

62) \_\_\_\_\_\_

A) set high target payout ratios when they are relatively young.   
 B) decrease their dividends as soon as they expect earnings to decline.  
 C) allow their dividend changes to lag their earnings changes.  
 D) set short-term target ratios of dividends to earnings.  
 E) set the dividend growth rate equal to the firm’s earnings growth rate.

**63)** Which one of the following is a negative aspect of paying dividends?

63) \_\_\_\_\_\_

A) Paying dividends reduces agency costs when excess cash is available to a firm.   
 B) Dividendpayments can be used to signal a firm’s optimistic outlook.  
 C) Dividends received are frequently taxed as ordinary income.  
 D) Dividend payments appeal to income-seeking investors.  
 E) Managers can pay dividends to keep cash from bondholders.

**64)** When setting dividend policy, financial executives place the greatest importance on which one of the following factors?

64) \_\_\_\_\_\_

A) Setting a high-dividend payout ratio even when earnings are unstable   
 B) Maintaining a consistent dividend policy  
 C) Increasing current dividends even if those dividends need to be lowered in the near future  
 D) Reducing dividends anytime future earnings are in doubt  
 E) Attracting institutional investors

**65)** Which one of the following actions is a characteristic of a sensible payout policy?

65) \_\_\_\_\_\_

A) Over the course of time, pay out half of all free cash flows   
 B) Set the current regular dividend consistent with a 100 percent payout ratio  
 C) Increase regular dividends to distribute transitory cash flow increases  
 D) Set the dividends high even if it means acquiring expensive external financing  
 E) Avoid rejecting positive NPV projects to increase dividends or buyback shares

**66)** Share repurchases:

66) \_\_\_\_\_\_

A) reduce a firm’s demand for external financing.   
 B) offer less of a tax advantage to shareholders than do cash dividends.  
 C) tend to increase agency costs.  
 D) are always positive net present value investments.  
 E) can be difficult to verify.

**67)** A change in dividend policy does not affect the value of a share of stock as long as:

67) \_\_\_\_\_\_

A) the dividend payout ratio remains constant.   
 B) all future dividends are changed by the same amount.  
 C) all the distributable cash flow is paid out.  
 D) there is an offsetting change in stock repurchases.  
 E) shareholders are given ample warning.

**68)** All else equal, a stock dividend will \_\_\_\_\_ the number of shares outstanding and \_\_\_\_\_ the value per share.

68) \_\_\_\_\_\_

A) increase; increase   
 B) increase; decrease  
 C) not change; increase  
 D) decrease; increase  
 E) decrease; decrease

**69)** A small stock dividend is generally defined as a stock dividend of less than \_\_\_\_\_ percent.

69) \_\_\_\_\_\_

A) 10 to 15   
 B) 15 to 20  
 C) 20 to 25  
 D) 25 to 30  
 E) 30 to 35

**70)** A stock split:

70) \_\_\_\_\_\_

A) increases the total book value of the common stock account.   
 B) decreases the book value of the retained earnings account.  
 C) does not affect the total book value of any of the equity accounts.  
 D) increases the book value of the capital in excess of par account.  
 E) decreases the total owners’ equity on the balance sheet.

**71)** Stock splits are often employed in order to:

71) \_\_\_\_\_\_

A) adjust the market price of a stock such that it falls within a preferred trading range.   
 B) decrease the excess cash held by a firm.  
 C) increase both the number of shares outstanding and the market price per share.  
 D) increase the total equity of a firm.  
 E) adjust the debt-equity ratio such that it falls within a preferred range.

**72)** Art Prints stock is currently trading for $114 per share. The firm’s management believes that the firm’s primary clientele can afford to spend between $1,800 and $2,000 to purchase a round lot of 100 shares. The firm should consider a:

72) \_\_\_\_\_\_

A) reverse stock split.   
 B) liquidating dividend.  
 C) stock dividend.  
 D) stock split.  
 E) special dividend.

**73)** A one-for-four reverse stock split will:

73) \_\_\_\_\_\_

A) increase the par value by 25 percent.   
 B) increase the number of shares outstanding by 400 percent.  
 C) increase the market value but not affect the par value per share.  
 D) increase a $1 par value to $4.  
 E) increase a $1 par value by $4.

**74)** Probably the best argument in favor of a reverse stock split is to:

74) \_\_\_\_\_\_

A) decrease the liquidity of a stock.   
 B) decrease the market value per share.  
 C) increase the number of stockholders.  
 D) maintain a minimum share price as set by a stock exchange.  
 E) raise additional capital from current stockholders.

**75)** A \_\_\_\_ will increase the number of shares outstanding without affecting the book value of any of the owners’ equity account values.

75) \_\_\_\_\_\_

A) special dividend   
 B) stock split  
 C) share repurchase  
 D) tender offer  
 E) liquidating dividend

**76)** In a reverse stock split the:

76) \_\_\_\_\_\_

A) number of shares outstanding increases and the owners’ equity decreases.   
 B) firm buys back existing shares of stock on the open market.  
 C) firm sells new shares of stock on the open market.  
 D) number of shares outstanding decreases while the book value of owners’ equity is unchanged.  
 E) shareholders make a cash payment to the firm.

**77)** Rhino Moving is paying a dividend of $.86 per share today. There are 164,000 shares outstanding with a par value of $1 per share. As a result of this dividend, the firm’s:

77) \_\_\_\_\_\_

A) retained earnings will decrease by $141,040.   
 B) retained earnings will decrease by $164,000.  
 C) common stock account will decrease by $164,000.  
 D) common stock account will decrease by $141,040.  
 E) capital in excess of par value account will decrease by $141,040.

**78)** Fiber Corporation declared a dividend of $.90 per share on April 20th to holders of record as of Monday, May 1st. The dividend is payable on June 1st. You purchased 100 shares of this stock on Wednesday, April 26th. How much dividend income will you receive on June 1st as a result of this declaration?

78) \_\_\_\_\_\_

A) $0   
 B) $2.25  
 C) $9.00  
 D) $22.50  
 E) $90.00

**79)** Chowdury, Incorporated, announced on May 1st that it will pay a dividend of $1.20 per share on June 15th to all holders of record as of May 31st. The firm’s stock price closed today at $42 per share. Assume all investors are in the 22 percent tax bracket. If tomorrow is the ex-dividend date, what would you expect the opening price to be tomorrow morning assuming all else is held constant?

79) \_\_\_\_\_\_

A) $42.00   
 B) $43.20  
 C) $41.06  
 D) $42.94  
 E) $41.66

**80)** Assume you purchased 200 shares of Capricorn stock on March 15th. On March 20th, you purchased another 100 shares and then on March 22nd you purchased your final 200. The company declared a dividend of $1.10 per share on March 5th to holders of record on Friday, March 23rd. The dividend is payable on March 31st. How much dividend income will you receive on March 31st?

80) \_\_\_\_\_\_

A) $0   
 B) $220  
 C) $330  
 D) $440  
 E) $550

**81)** An investor purchased 1,000 shares of Travertine stock on January 18th. On February 5th, she sold 200 shares of this stock for $21 per share. On March 9th, she sold an additional 400 shares for $22.50 per share. The company declared a $.50 per share dividend on February 25th to holders of record as of Thursday, March 10th. The dividend is payable on March 31st. How much dividend income will the investor receive on March 31st?

81) \_\_\_\_\_\_

A) $100   
 B) $200  
 C) $300  
 D) $400  
 E) $500

**82)** Assume you own 300 shares of Sycamore stock. The firm plans on issuing a dividend of $2.10 per share one year from today and then issuing a final liquidating dividend of $36.45 per share two years from today. Your required rate of return is 14.5 percent. Ignoring taxes, what is the value of one share of this stock to you today?

82) \_\_\_\_\_\_

A) $33.93   
 B) $29.64  
 C) $26.62  
 D) $27.80  
 E) $31.05

**83)** You own 200 shares of Galaxy stock. The firm announced that it will be issuing a dividend of $.20 per share one year from today followed by a final liquidating dividend of $1.60 per share two years from today. If you can earn 7 percent on your funds, what will be the value of your total investment income in two years if you do not want to receive any funds until then?

83) \_\_\_\_\_\_

A) $362.80   
 B) $266.67  
 C) $302.30  
 D) $348.04  
 E) $247.78

**84)** Today is January 1, 2022. Adina owns 500 shares of Colorwheel stock. The company recently issued a statement that it will pay a $1 per share dividend on December 31, 2022, a $2.50 per share dividend on December 31, 2023, and then will cease all dividend payments. Adina does not want any dividend income this year but does want as much dividend income as possible next year. Adina can earn 8 percent on her investments. Ignoring taxes, what will Adina’s homemade dividend per share be in 2023?

84) \_\_\_\_\_\_

A) $3.78   
 B) $3.50  
 C) $2.50  
 D) $3.58  
 E) $1.08

**85)** The market value of Scorpion Corporation equals its book value. Currently, the firm has excess cash of $1,100 and other assets of $12,400. Equity is worth $13,500. The firm has 2,500 shares of stock outstanding and net income of $10,800. What will be the new earnings per share if the firm uses its excess cash to complete a stock repurchase?

85) \_\_\_\_\_\_

A) $4.32   
 B) $4.50  
 C) $4.82  
 D) $4.70  
 E) $4.40

**86)** Assume a firm has a market value equal to its book value, excess cash of $900, other assets of $16,500, and equity valued at $17,400. The firm has 1,200 shares of stock outstanding and net income of $15,400. If the firm spends all of its excess cash on share repurchases, how many shares will be outstanding after the repurchases are completed? (Round your answer up to the nearest whole share.)

86) \_\_\_\_\_\_

A) 1,148 shares   
 B) 1,135 shares  
 C) 1,138 shares  
 D) 1,164 shares  
 E) 1,142 shares

**87)** The Bureau has 400 shares of stock outstanding and a market value equal to its book value. It has excess cash of $400, other assets of $8,600, equity of $18,000, and net income of $2,000. What will be the stock price per share if the firm pays out its excess cash as a cash dividend?

87) \_\_\_\_\_\_

A) $36   
 B) $38  
 C) $40  
 D) $42  
 E) $44

**88)** Dollar & Ruiz has a market value equal to its book value, excess cash of $400, other assets of $7,600, equity of $8,000, 200 shares of stock outstanding, and net income of $900. The firm has decided to pay out all its excess cash as a cash dividend. What will be the earnings per share after the dividend is paid?

88) \_\_\_\_\_\_

A) $4.68   
 B) $4.74  
 C) $4.59  
 D) $4.80  
 E) $4.50

**89)** A firm has a market value equal to its book value, excess cash of $1,000, and equity worth $17,800. The firm has 5,000 shares of stock outstanding and net income of $31,200. What will be the new earnings per share if the firm uses its excess cash to complete a stock repurchase?

89) \_\_\_\_\_\_

A) $7.20   
 B) $6.50  
 C) $6.61  
 D) $5.89  
 E) $6.23

**90)** Assume you own 400 shares of Acosta, Incorporated, stock and receive a stock dividend of 6 percent. As a result, the number of shares you own will be \_\_\_\_\_ shares while your total wealth will increase by \_\_\_ percent.

90) \_\_\_\_\_\_

A) 424; 6   
 B) 406; 0  
 C) 424; 0  
 D) 406; 6  
 E) 400; 6

**91)** Murphy’s has shares of stock outstanding with a par value of $1 per share and a market value of $24.60 per share. The balance sheet shows $32,500 in the capital in excess of par account, $12,000 in the common stock account, and $68,700 in the retained earnings account. The firm just announced a stock dividend of 10 percent. What will be the balance in the retained earnings account after the dividend?

91) \_\_\_\_\_\_

A) $39,180   
 B) $48,300  
 C) $59,120  
 D) $67,520  
 E) $40,380

**92)** Aboulafia Logistics has 15,000 shares of stock outstanding with a par value of $1 per share and a market value per share of $8. The firm just announced a stock dividend of 10 percent. What will be the market price per share after the dividend?

92) \_\_\_\_\_\_

A) $7.20   
 B) $7.27  
 C) $7.33  
 D) $8.00  
 E) $8.80

**93)** Griffo Group has 42,000 shares of stock outstanding with a par value of $1 per share and a market price per share of $41. The balance sheet shows $1,358,000 in the capital in excess of par account and $2,212,500 in the retained earnings account. The firm just announced a stock dividend of 50 percent. What is the value of the capital in excess of par account after the dividend?

93) \_\_\_\_\_\_

A) $1,358,000   
 B) $612,500  
 C) $518,000  
 D) $497,000  
 E) $221,900

**94)** Huang Construction has 15,000 shares of stock outstanding with a par value of $1 per share and a market value of $45 per share. The balance sheet shows $15,000 in the common stock account, $158,000 in the capital in excess of par account, and $132,500 in the retained earnings account. The firm just announced a stock dividend of 50 percent. What is the value of the retained earnings account after the dividend?

94) \_\_\_\_\_\_

A) $125,000   
 B) $117,500  
 C) $132,500  
 D) $140,000  
 E) $147,500

**95)** Ketubu Corporation has shares of stock outstanding with a par value of $1 per share and a market-to-book ratio of 2.1. The balance sheet shows $5,000 in the common stock account, $58,000 in the capital in excess of par account, and $32,500 in the retained earnings account. The firm just announced a stock dividend of 50 percent. What is the book value of the common stock account after the dividend?

95) \_\_\_\_\_\_

A) $10,000   
 B) $8,500  
 C) $9,000  
 D) $7,500  
 E) $5,000

**96)** Havelund has 2,000 shares of stock outstanding with a par value of $1 per share and a market value of $26 per share. The balance sheet shows $2,000 in the common stock account, $9,500 in the capital in excess of par account, and $14,500 in the retained earnings account. The firm just announced a stock dividend of 75 percent. What is the market value per share after the dividend?

96) \_\_\_\_\_\_

A) $36.00   
 B) $14.86  
 C) $45.50  
 D) $13.50  
 E) $12.00

**97)** Tangoes has 24,000 shares of stock outstanding with a par value of $1 per share and a market price of $36 per share. How many shares of stock will be outstanding of the firm does a 3-for-2 stock split?

97) \_\_\_\_\_\_

A) 40,000 shares   
 B) 36,000 shares  
 C) 32,000 shares  
 D) 16,000 shares  
 E) 28,000 shares

**98)** Rosco’s has 15,000 shares of stock outstanding with a market price of $6 per share. What will be the market price per share if the firm does a 1-for-3 reverse stock split?

98) \_\_\_\_\_\_

A) $18   
 B) $24  
 C) $42  
 D) $48  
 E) $54

**99)** Metreo’s balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. The firm just announced a 3-for-2 stock split. What will be the value of the common stock account after the split if the par value per share is $1?

99) \_\_\_\_\_\_

A) $10,000   
 B) $12,500  
 C) $15,000  
 D) $18,500  
 E) $22,500

**100)** Assume Door Systems' latest balance sheet shows $15,000 in the common stock account, $315,000 in the capital in excess of par account, and $189,000 in the retained earnings account. What will be the capital in excess of par account value if the firm does a 5-for-3 stock split?

100) \_\_\_\_\_\_

A) $126,000   
 B) $210,000  
 C) $283,500  
 D) $315,000  
 E) $472,500

**101)** Haskell’s has 8,000 shares of stock outstanding and the current market value of the firm is $144,000. The company just announced a 4-for-1 stock split. What will be the market price per share after the split?

101) \_\_\_\_\_\_

A) $13.50   
 B) $18.00  
 C) $22.50  
 D) $9.00  
 E) $4.50

**102)** Cherish Corporationhas 8,000 shares of stock outstanding with a par value of $1 per share. The current market value of the firm is $620,000. The balance sheet shows a capital in excess of par account value of $66,000 and retained earnings of $234,000. The company just announced a 3-for-1 stock split. What will be the retained earnings account balance after the split?

102) \_\_\_\_\_\_

A) $117,000   
 B) $234,000  
 C) $351,000  
 D) $410,000  
 E) $468,000

**103)** Lupton Farms has 125,000 shares of stock outstanding at a market price of $93 per share. The company has just announced a 5-for-2 stock split. How many shares of stock will be outstanding after the split?

103) \_\_\_\_\_\_

A) 50,000   
 B) 75,000  
 C) 156,250  
 D) 175,000  
 E) 312,500

**104)** Deep Water Drilling has 160,000 shares of stock outstanding at a market price of $109 per share. The company has just announced a 7-for-3 stock split. What will be the market price per share after the split?

104) \_\_\_\_\_\_

A) $38.27   
 B) $46.71  
 C) $48.40  
 D) $46.18  
 E) $48.80

**105)** A firm has a total market value of $89,600 with 6,500 shares of stock outstanding. What will be the total market value of the firm if it does a 1-for-2 reverse stock split?

105) \_\_\_\_\_\_

A) $179,200   
 B) $148,300  
 C) $122,300  
 D) $89,600  
 E) $44,800

**106)** Chelsea Peformance has 25,000 shares of stock outstanding at a market price of $4.50 per share. What will be the market price per share if the company does a 1-for-5 reverse stock split?

106) \_\_\_\_\_\_

A) $.90   
 B) $1.20  
 C) $22.50  
 D) $27.00  
 E) $29.50

**107)** Rose & Sheridan has 125,000 shares of stock outstanding with a par value of $1 per share and a market value of $5 per share. The company has retained earnings of $76,500 and capital in excess of par of $340,000. The company just announced a 1-for-5 reverse stock split. What will be the par value per share after the split?

107) \_\_\_\_\_\_

A) $.20   
 B) $.25  
 C) $2.50  
 D) $5.00  
 E) $10.00

**108)** The Cameron Company is paying a dividend of $.76 per share today. There are 180,000 shares outstanding with a par value of $1 per share. As a result of this dividend, the:

108) \_\_\_\_\_\_

A) retained earnings will decrease by $180,000.   
 B) retained earnings will decrease by $136,800.  
 C) common stock account will decrease by $136,800.  
 D) common stock account will increase by $180,000.  
 E) capital in excess of par value account will decrease by $43,200.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
109)** Explain why an ex-dividend date is a required step in the dividend payout process.

**110)** It has been shown that in the absence of taxes and other market imperfections firm value will be unaffected by dividend policy. Explain the logic behind this conclusion.

**111)** Explain the general characteristics of a tender offer.

**112)** Explain what a targeted repurchase is and why a firm might do a repurchase of this type.

**113)** Explain why executives who hold stock options prefer stock repurchases over stock dividends.

**Answer Key**Test name: Chapter 19

1) E

Ex-dividend price = $81.40 − 2.70  
 Ex-dividend price = $78.70

2) D

Ex-dividend price = $47.70 − 1.87  
 Ex-dividend price = $45.83  
   
 Portfolio value = 110($45.83 + 1.87)  
 Portfolio value = $5,247.00

3) A

Aftertax dividend = $7.05(1 − .20)  
 Aftertax dividend = $5.64  
   
 Ex-dividend price = $113.05 − 5.64  
 Ex-dividend price = $107.41

4) E

Aftertax dividend = $2.25(1 − .15)  
 Aftertax dividend = $1.91  
   
 Ex-dividend price = $59.85 − 1.91  
 Ex-dividend price = $57.94

5) A

Market value = Book value = ($28,000 − 7,000) / 600 shares  
 Market value = $35 per share

6) C

Dividend per share = $4,300,000/455,000  
 Dividend per share = $9.45  
   
 Ex-dividend price = $86.37 − 9.45  
 Ex-dividend price = $76.92

7) A

New shares = 23,000(.175)  
 New shares = 4,025 shares

8) A

New shares = 24,000(.20)  
 New shares = 4,800 shares  
   
 Capital surplus on new shares = 4,800($56 − 1)  
 Capital surplus on new shares = $264,000

9) A

Total market value = 31,850 shares × $13 per share  
 Total market value = $414,050  
   
 New number of shares outstanding = 31,850(1 + .12)  
 New number of shares outstanding = 35,672 shares  
   
 New market price per share = $414,050/35,672 shares  
 New market price per share = $11.61

10) D

Additional shares issued = .12(60,000 shares)  
 Additional shares issued = 7,200 shares  
   
 Capital in excess of par per share = $10 − 1  
 Capital in excess of par per share = $9  
   
 New balance in capital in excess of par = $72,000 + (7,200 shares × $9 per share)  
 New balance in capital in excess of par = $136,800

11) D

New number of shares outstanding = 38,000(5/2)  
 New number of shares outstanding = 95,000 shares

12) D

New shares outstanding = 470,000(3/1)  
 New shares outstanding = 1,410,000 shares

13) C

New share price = $79.97(2/5)  
 New share price = $31.99

14) E

New shares outstanding = 225,000(2/5)  
 New shares outstanding = 90,000 shares

15) C

New shares price = $27.81(5/2)  
 New shares price = $69.53

16) A

Market value per share = Book value per share = $6,500/650 shares  
 Market value per share = $10  
   
 Number of shares repurchased = $1,000/$10 per share  
 Number of shares repurchased = 100 shares  
   
 Number of shares outstanding after the repurchase = 650 − 100  
 Number of shares outstanding after the repurchase = 550 shares

17) B

The stock price will be unaffected by the repurchase and will remain at $45.71.

18) D

Market value per share = Book value per share = $14,250/950 shares  
 Market value per share = $15  
   
 Number of shares repurchased = $1,050/$15 per share  
 Number of shares repurchased = 70 shares  
   
 Number of shares outstanding after the repurchase = 950 − 70  
 Number of shares outstanding after the repurchase = 880 shares  
   
 EPS after repurchase = $1,200 / 880 shares  
 EPS after repurchase = $1.36

19) A

Common stock account = 79,000($2)  
 Common stock account = $158,000  
   
 New common stock account = $158,000(1 + .20)  
 New common stock account = $189,600

20) E

Shares repurchased = $631,000/305,000  
 Shares repurchased = 9,508.74 shares  
   
 New EPS = $965,000/(305,000 − 9,508.74)  
 New EPS = $3.27

21) E

Shares after repurchase = 44,000 − ($99,000/$63.39)  
 Shares after repurchase = 42,438.24 shares  
   
 New EPS = ($3.39 × 44,000)/42,438.24  
 New EPS = $3.51

22) A

Shares repurchased = $150,000.00/$76.74  
 Shares repurchased = 1,954.65  
 New shares outstanding = 44,000 − 1,954.65 = 42,045.35  
 New EPS = 44,000($3.39)/42,045.35  
 New EPS = $3.55  
 New PE = $76.74/$3.55  
 New PE = $21.63

23) A

New stock price = $92.48/(1 + .20)  
 New stock price = $77.07

24) C

New shares = 840(5/3)  
 New shares = 1,400 shares  
   
 New price = $66.56(3/5)  
 New price = $39.94

25) B

New shares = 820(2/5)  
 New shares = 328 shares  
   
 New price = $14.09(5/2)  
 New price = $35.23

26) D

27) A

28) C

29) A

30) A

31) E

32) C

33) D

34) B

35) E

36) E

37) B

38) C

39) D

40) D

41) C

42) E

43) E

44) D

45) B

46) A

47) E

48) A

49) B

50) A

51) A

52) E

53) C

54) E

55) B

56) B

57) D

58) E

59) B

60) A

61) E

62) C

63) C

64) B

65) E

66) E

67) C

68) B

69) C

70) C

71) A

72) D

73) D

74) D

75) B

76) D

77) A

Decrease in retained earnings = $.86(164,000)  
 Decrease in retained earnings = $141,040

78) E

Dividend income = $.90(100)  
 Dividend income = $90.00

79) C

Opening price = $42 − $1.20(1 − .22)  
 Opening price = $41.06

80) C

Dividend income = $1.10(200 + 100)  
 Dividend income = $330

81) D

Dividend received = $.50(1,000 − 200)  
 Dividend received = $400

82) B

Value per share = $2.10/1.145 + $36.45/1.1452  
 Value per share = $29.64

83) A

Total value = [$.20(1 + .07) + $1.60](200)  
 Total value = $362.80

84) D

Homemade dividend = $1(1.08) + $2.50  
 Homemade dividend = $3.58

85) D

Price per share = $13,500/2,500  
 Price per share = $5.40  
   
 Number of shares repurchased = $1,100/$5.40  
 Number of shares repurchased = 203.70 shares  
   
 New EPS = $10,800/(2,500 − 203.70)  
 New EPS = $4.70

86) C

Price per share = $17,400/1,200  
 Price per share = $14.50  
   
 Number of shares repurchased = $900/$14.50  
 Number of shares repurchased = 62.07  
   
 New number of shares outstanding = 1,200 − 62.07  
 New number of shares outstanding = 1,137.93, or 1,138

87) E

Price per share = ($18,000 − 400)/400  
 Price per share = $44

88) E

EPS = $900/200  
 EPS = $4.50

89) C

Price per share = $17,800/5,000  
 Price per share = $3.56  
   
 Number of shares repurchased = $1,000/$3.56  
 Number of shares repurchased = 280.90  
   
 New EPS = $31,200/(5,000 − 280.90)  
 New EPS = $6.61

90) C

New number of shares = 400(1.06)  
 New number of shares = 424  
   
 Your total wealth will remain constant as the value per share will decrease by 6 percent.

91) A

Retained earnings = −[($12,000/$1)(.10)($24.60)] + $68,700  
 Retained earnings = $39,180

92) B

Market price per share = [15,000($8)]/[15,000(1.10)]  
 Market price per share = $7.27  
   
 This can also be simplified to:  
   
 Market price per share = $8/1.10  
 Market price per share = $7.27

93) A

The capital in excess of par account does not change with a large stock dividend.

94) A

Retained earnings = −[($15,000/$1)(.50)($1)] + $132,500  
 Retained earnings = $125,000

95) D

Book valueCommon stock = [($5,000/$1)(.5)($1)] + $5,000  
 Book valueCommon stock = $7,500

96) B

Market value per share = [2,000($26)]/[($2,000/$1)(1.75)]  
 Market value per share = $14.86  
   
 The answer can also be found as:  
   
 Market value per share = $26/1.75  
 Market value per share = $14.86

97) B

Number of shares = 24,000(3/2)  
 Number of shares = 36,000 shares

98) A

Market price per share = $6(3/1)  
 Market price per share = $18

99) C

A stock split does not change the total value of the common stock account.

100) D

A stock split does not change the total value of the capital in excess of par account.

101) E

Market price per share = ($144,000/8,000 shares)(1/4)  
 Market price per share = $4.50

102) B

A stock split does not change the total value of the retained earnings account.

103) E

Number of shares = 125,000(5/2)  
 Number of shares = 312,500

104) B

Market price per share = $109(3/7)  
 Market price per share = $46.71

105) D

A reverse stock split does not change the total market value of a firm.

106) C

Market price = $4.50(5/1)  
 Market price = $22.50

107) D

Par value per share = $1(5/1)  
 Par value per share = $5

108) B

Decrease in retained earnings = $.76($180,000)  
 Decrease in retained earnings = $136,800

109) Dividends are paid to the holders of record on the issuing corporation’s books as of the official record date. For a shareholder to be added or removed as the official owner on the corporate books requires processing time following the trade of shares. The ex-dividend date acts as the official cut-off point. Any stock trade prior to this date has ample time to be officially recorded on the corporate books. Any trade on or after the ex-dividend date will not be recorded until after the dividend is paid. Thus, buyers of a stock prior to the ex-dividend date receive the dividend while buyers on or after the ex-dividend date do not.

110) Dividend policy is considered irrelevant because investors, through the use of homemade dividends, can create their own individualized payout policy. If an investor wishes to receive income sooner, they can sell shares. If they wish to receive income later, they can reinvest any dividends paid by the firm.

111) In a tender offer, the firm announces both the number of shares it wants to purchase and the price per share it is willing to pay. Generally, the price offered exceeds the current market price. Shareholders have the option of selling at this price and if interested, they respond to the offer. If the shareholders offer less shares than the firm desires, the firm can cancel the offer. If shareholders offer more shares than the number desired by the firm, then the firm prorates the shareholder offers and purchases a fraction of each shareholder’s offer.

112) A targeted repurchase is a repurchase of shares by a firm from select shareholders. This type of repurchase could be done to prevent a take-over attempt, to remove disgruntled shareholders, or to buy out a single shareholder. The repurchase offer is not granted to all shareholders.

113) The price of a stock remains constant with a repurchase and declines with a stock dividend. Executives prefer repurchases because they result in a higher stock price and thus increase the value of any in-the-money stock options.