Lesson #9 Quiz
Graded Quiz • 30 min

Due Oct 26, 2:59 AM EDT

Congratulations! You passed!

TO PASS 80% or higher

Keep Learning

Retake the assignment in **5 min**

GRADE
100%

You have a new skill score!

Great job! Keep learning and making progress in your courses to increase your skill scores. **See skills**

Finance 268

Lesson #9 Quiz

LATEST SUBMISSION GRADE
100%

1. Market capitalization is calculated by using: **1 / 1 point**

- ( ) The total number of employee of a company.
- ( ) The earnings of a company.
- (•) The price per share and the total number of outstanding shares.
- ( ) The dividends of a company.

✓ **Correct**
Market capitalization is simply the product of these two quantities.

2. The greater an investor's ownership in a corporation is, the greater: **1 / 1 point**

- ( ) is the profitability of the company.
- ( ) is the amount of taxes to be paid by the company.
- (•) is the total number of shares he/she owns with respect to the total number of shares outstanding.
- ( ) is the total number of shares he/she owns.

✓ **Correct**

3. A firm must make its dividend payments to _________ before it makes any dividend payments to its __________. **1 / 1 point**

- ( ) bondholders
  preferred shareholders
- (•) preferred shareholders
  common shareholders
- ( ) the members of the board
  bondholders
- ( ) its Chief Executive Officer
  preferred shareholders

✓ **Correct**

4. The basic corporate charter: (check all that apply) **1 / 1 point**

- [x] does not say that the firm ever has to raise debt. The board decides.

✓ **Correct**

- [ ] says that the firm must pay dividends during its lifetime.
- [ ] says that the firm must repurchase some of its shares beyond a certain threshold of issuance.
- [x] does not say that the firm ever has to issue warrants, convertible debt or any other debt securities.

✓ **Correct**

5. In the Pecking Order Theory, the companies prioritize their sources of financing in the following order: **1 / 1 point**

- ( ) (1) Debt, (2) Internal financing, (3) Equity.

- (x) (1) Internal financing, (2) debt issuance, (3) Equity.
- ( ) (1) Equity, (2) Debt issuance, (3) Internal financing.
- ( ) (1) Equity, (2) Internal financing, (3) Debt.

✓ **Correct**

6. A dilution is:

1 / 1 point

- (x) A reduction in the ownership percentage of a share of stock caused by the issuance of new shares.
- ( ) The issuance of new debt by a company.
- ( ) An increase in the ownership percentage of a share of stock caused by the issuance of new shares.
- ( ) A sale of an investor's shares.

✓ **Correct**

7. A share repurchase is: (check all that apply)

1 / 1 point

- [x] A program by which a company buys backs its own shares from the marketplace or from its shareholders (at a fixed price).

✓ **Correct**

- [x] An alternative to paying dividends in order to return cash to investors.

✓ **Correct**

- [ ] A program by which investors buy back their previously sold shares of a given company.
- [x] The reverse of a dilution.

✓ **Correct**

8. The price-to-earnings ratio: (check all that apply)

1 / 1 point

- [x] Shows how much an investor is willing to pay for the stock of the company for each dollar of the company's earnings.

✓ **Correct**

- [ ] Indicates the percentage of profit that is paid out as dividends.
- [x] Effectively shows the number of years of earnings at which the company is valued given the current level of the share price.

✓ **Correct**

- [ ] Measures the funds provided by creditors versus the funds provided by owners.

9. Generally, a reduction in dividend is interpreted by investors as:

1 / 1 point

- ( ) Good news, with often an increase of the stock price.
- ( ) A sign of future increase in profitability.
- ( ) A non-event.
- (x) Bad news, with often a drop in the stock price.

✓ **Correct**
Usually dividend cuts or omissions are bad news, because investors infer trouble.