

Stocks

14-2 Assignment

Read Section 14-2 in the textbook packet and answer the following questions.

____ 211. Benny is considering investing in Larkman, Inc. The current price of Larkman is \$62 a share, the after-tax earnings are \$37,900,000, and there are 13,000,000 outstanding shares of common stock. What is Larkman's price/earnings ratio?

- a. 15.5 b. 21.3 c. 4.77 d. 17.6

____ 212. Stocks with low price/earnings ratios tend to have

- a. lower yields.
b. higher risk.
c. higher prices.
d. a slower earnings growth rate.

____ 213. Which of the following statements regarding the price/earnings ratio (P/E ratio) is false?

- a. The P/E ratio is a measure of a stock's relative price.
b. P/E ratios should be compared among firms in the same industry.
c. P/E ratios for most corporations have ranged between 5 and 10.
d. A relatively low P/E ratio indicates that investors expect sluggish growth or an uncertain future.

____ 214. Which of the following types of companies would tend to have the lowest P/E ratio?

- a. Growing b. Rapidly growing
c. Successful but stable d. Speculative

____ 215. Ronny is considering investing in Markman, Inc. The current price of Markman is \$40 a share, the after-tax earnings are \$21,600,000, and there are 10,000,000 outstanding shares of common stock. What is Markman's price/earnings ratio?

- a. 15.0 b. 18.5 c. 25.0 d. 28.5

____ 216. The inverse of the P/E ratio is the
a. dividend yield. b. income curve.
c. earnings yield. d. earnings per share.

____ 217. Which of the following is simply an estimate based on projected future earnings?

- a. dividend yield b. trailing P/E ratio
c. forward P/E ratio d. earnings per share

____ 218. A stock that has a negative beta tends to

- a. be stable compared to the market as a whole.
b. be volatile compared to the market as a whole.
c. move up when the market as a whole moves down.
d. move up when the market as a whole moves up.

____ 219. Companies that consistently pay out higher than average cash dividends are classified as ____ stocks.

- a. income b. blue-chip
c. Growth d. defensive

____ 220. Countercyclical stocks have a beta

- a. above 1.0. b. below 1.0.
c. of 0. d. that is negative.

____ 221. ____ would be classified as cyclical industries.

- a. Drug manufacturers b. Food retailers
c. Utility companies d. Airlines

____ 222. ____ would be classified as a countercyclical industry.

- a. Airlines b. Hotels
c. Tobacco d. Autos

_____ 223. An investor who expected an economic downturn would want to put his or her stock portfolio in _____ stocks.

- a. cyclical
- b. well-known growth
- c. speculative
- d. countercyclical

_____ 224. Investors who have to depend on current income from their investments to supplement their living expenses should invest in _____ stocks.

- a. income and blue-chip
- b. income and well-known growth
- c. blue-chip and lesser-known growth
- d. well-known growth and speculative

_____ 225. Which of the following statements regarding cash dividends is true?

- a. Growth and speculative companies typically pay little or no cash dividends.
- b. Cash dividends to common and preferred stockholders are variable amounts.
- c. Cash dividends are guaranteed payments to preferred and common stockholders.
- d. All after-tax earnings of a corporation must be paid out to the common and preferred stockholders.

_____ 226. A stock that tends to trade at a low price relative to its company fundamentals is labeled a

- a. value stock.
- b. income stock.
- c. growth stock.
- d. preferred stock.

_____ 227. What type of investor aims to find stocks that are priced below what they ought to be?

- a. Fundamental investor
- b. Growth investor
- c. Conservative investor
- d. Value investor

_____ 228. A _____ stock is one that has little or no track record but has a potential for substantial earnings at some time in the future.

- a. fundamental
- b. speculative
- c. growth
- d. value

_____ 229. Which of the following is true regarding growth stocks?

- a. They pay above-average cash dividends.
- b. They have relatively low P/E ratios.
- c. They often have betas of 1.5 or more.
- d. Investors are expecting low to moderate appreciation in stock prices.

_____ 230. Some of the least risky stocks on the market are called

- a. blue-chip stocks.
- b. well-known growth stocks.
- c. cyclical stocks.
- d. lesser-known growth stocks.

_____ 231. Blue-chip stocks typically have betas of.

- a. less than 0.0.
- b. 0.0 to 0.5
- c. 1.0
- d. 1.5 or more.

_____ 232. A company that has a capitalization of \$300 million to \$2 billion is called a _____ stock.

- a. large-cap
- b. midcap
- c. small-cap
- d. microcap

_____ 233. An investor using the fundamental approach would look at

- a. the management of the company.
- b. the outlook for the profitability of the industry.
- c. the value of an individual company.
- d. All of these.

_____ 234. _____ analysis is a method of evaluating securities that focuses on statistics generated by market activity, such as past prices and sales volume.

- a. fundamental
- b. value
- c. technical
- d. Speculative

_____ 235. The term used to evaluate the profitability of a firm on a common-stock per-share basis is

- a. price/earnings ratio.
- b. earnings per share.
- c. dividend payout ratio.
- d. cash dividends per share.

_____ 236. Anderson Equipment Corporation has total after-tax earnings of \$915,000 and 400,000 shares of common stock outstanding. What are the earnings per share for Anderson Equipment?

- a. \$1.89
- b. \$1.97
- c. \$2.06
- d. \$2.29

_____ 237. Maxwell Communications Corporation has after-tax earnings of \$1,508,000 after paying \$45,000 in dividends to its 10,000 preferred stockholders. If Maxwell has 500,000 common stockholders, its earnings per share are

- a. \$4.50.
- b. \$4.00.
- c. \$3.05.
- d. \$3.02.

_____ 241. Which of the following statements is not true regarding cash dividends?

- a. Cash dividends are generally paid out of current earnings.
- b. Cash dividends are normally paid semiannually.
- c. Cash dividends are normally paid four times per corporate year.
- d. The amount of the cash dividend is determined by the board of directors of the company.

_____ 244. Rupert purchased 100 shares of Clarke Corporation for \$28 a share last year. Clarke Corporation stock currently sells for \$30 a share and pays \$0.90 a share annually in cash dividends. What is the dividend yield on this stock?

- a. 12.0 percent
- b. 2.8 percent
- c. 3.0 percent
- d. 3.2 percent

_____ 245. The annual cash dividend return to an investor expressed as a percentage of the price of a security is a

- a. stock dividend.
- b. dividend yield.
- c. dividend payout ratio.
- d. dividend per share.

_____ 246. MAX Corporation stock is currently selling for \$38 a share, and it pays a **quarterly** dividend of \$0.25. What is the dividend yield on MAX Corporation?

- a. 1.0 percent
- b. 2.6 percent
- c. 3.3 percent
- d. 6.5 percent

_____ 247. MIN Corporation stock is currently selling for \$52 a share, and it pays a quarterly dividend of \$0.75. What is the dividend yield on MIN Corporation?

- a. 4.4 percent
- b. 33 percent
- c. 5.8 percent
- d. 1.4 percent

_____ 248. A company's net worth is known as its _____ value.

- a. book
- b. market
- c. par
- d. intrinsic

Use this information to answer 254 and 255:

Rosa's is a small chain of Mexican food restaurants that features five delicious varieties of salsa. The business has grown over the past ten years from a hobby to a small corporation with 200,000 shares of common stock outstanding. The corporation has not issued any preferred stock. The following is Rosa's latest financial data:

| | |
|-------------------------|--------------|
| Annual earnings | \$ 750,000 |
| Annual sales | \$12,650,000 |
| Corporate assets | \$20,500,000 |
| Corporate liabilities | \$12,800,000 |
| Cash dividends (annual) | \$.50 |
| Market price of stock | \$ 35 |

_____ 254. What are the earnings per share for Rosa's?

- a. \$2.00
- b. \$2.34
- c. \$3.50
- d. \$3.75

____ 255. What is the price/earnings ratio for Rosa's?
a. 9.3 b. 13.6 c. 32.8 d. 35.0

____ 260. A stock with a ____ beta means the security goes up when the market as a whole goes up; while a ____ beta indicates the opposite.

- a. positive; negative
- b. negative; positive
- c. zero; negative
- d. positive; zero

____ 261. ACB, Inc., has a beta of 1.2. If the market as a whole goes up 15 percent, we would expect ACB's market value to go

- a. up 15 percent.
- b. down 15 percent.
- c. up 18 percent.
- d. down 18 percent.

Use this information to answer 264 and 265:

Toni and Felix are considering buying stock. They would like to purchase 600 shares of Sudsy Soap stock at \$35 a share. Sudsy Soap had the following figures for the past year:

| | |
|-------------------------|-------------|
| Annual earnings | \$ 100,000 |
| Shares of stock | 10,000 |
| Corporate assets | \$1,500,000 |
| Corporate liabilities | \$ 800,000 |
| Cash dividends (annual) | \$ 5,000 |
| Market price of stock | \$ 35 |
| Growth rate | 8 percent |

____ 264. What is Sudsy Soap's dividend yield?

- a. 1.4%
- b. 1.6%
- c. 2.1%
- d. 3.0%

____ 265. What is Sudsy Soap's P/E ratio?

- a. 0.233
- b. 2.33
- c. 3.5
- d. 35

____ 270. To calculate the total estimate of the required rate of return on an investment, multiply

- a. the T-bill rate times the estimated market risk plus beta.
- b. the beta value times the estimated market risk return plus the risk-free T-bill rate.
- c. the market risk times the diversified risk and add the risk-free rate.
- d. None of these.

____ 271. Assuming a market rate risk of 8 percent and a return on Treasury bills of 4 percent, what would the total estimate of the required rate of return be for a stock with a beta of 1.7?

- a. 13.6 percent
- b. 13.7 percent
- c. 14.8 percent
- d. 17.6 percent

____ 272. The approximate compound yield (ACY) formula provides a measure of the

- a. annualized compound growth of any long-term investment.
- b. annualized compound growth of any short-term investment.
- c. total return of any long-term investment.
- d. total return of any short-term investment.

____ 273. Jackson purchased Logo, Inc., stock for \$30 a share and sold it for \$36 a share three years later. Over those three years he received an average annual dividend of \$1. The approximate compound yield on this investment was ____ percent.

- a. 4.0
- b. 8.6
- c. 9.1
- d. 12