

Reading 47: Overview of Equity Securities

Question #1 of 34

Question ID: 415253

An equity security that requires the firm to pay any scheduled dividends that have been missed, before paying any dividends to common equity holders, is a:

- A) cumulative preference share.
 - B) participating preference share.
 - C) convertible preference share.
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Question #2 of 34

Question ID: 415279

When analyzing an industry characterized by increasing book values of equity, return on equity for a period is *most* appropriately calculated based on:

- A) average book value.
 - B) ending book value.
 - C) beginning book value.
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Question #3 of 34

Question ID: 415275

The difference between a firm's balance sheet assets and liabilities is equal to the firm's:

- A) book value of equity.
 - B) intrinsic value of equity.
 - C) market value of equity.
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Question #4 of 34

Question ID: 415265

Global depository receipts are *most likely* issued:

- A) outside the issuer's home country and denominated in the exchange's home currency.
 - B) in the United States and denominated in U.S. dollars.
 - C) outside the issuer's home country and denominated in U.S. dollars.
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Question #5 of 34

Question ID: 415276

For a non-dividend paying firm, an increase in net income must increase:

- A) market value of equity.
 - B) book value of equity.
 - C) both book value and market value of equity.
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Question #6 of 34

Question ID: 434377

Compared to publicly traded firms, privately held firms have which of the following characteristics?

- A) Less ability to focus on long-term prospects.
 - B) More limited financial disclosure.
 - C) Higher reporting costs.
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Question #7 of 34

Question ID: 415261

Private equity securities *most likely*:

- A) are issued to individual investors.
 - B) are illiquid and do not have quoted prices.
 - C) trade in over-the-counter dealer markets.
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Question #8 of 34

Question ID: 415252

Two seats on a board of directors are to be elected. A voting system in which the owner of 100 shares may cast 100 votes in each of the board elections is a:

- A) cumulative voting system.
 - B) statutory voting system.
 - C) proportional voting system.
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Question #9 of 34

Question ID: 415262

Hodges Fund provides mezzanine stage financing to private companies. In which type of private equity investing is Hodges Fund most likely involved?

- A) Private investment in public equity.
- B) Venture capital.
- C) Leveraged buyout.

Question #10 of 34

Question ID: 415271

Compared to preferred stock, common stock is *most likely* to:

- A) provide a higher average return.
 - B) exhibit a lower standard deviation of returns.
 - C) pay more frequent dividends.
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Question #11 of 34

Question ID: 434380

The book value of equity is equal to a firm's assets:

- A) minus its liabilities.
 - B) plus its accumulated other comprehensive income.
 - C) plus its retained earnings.
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Question #12 of 34

Question ID: 434376

Securities that can be sold back to the issuing firm at a specific price are *best* described as:

- A) callable.
 - B) convertible.
 - C) puttable.
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Question ID: 415278

Which of the following changes would *most likely* cause a firm's return on equity to increase?

- A) Net income decreases by 5% and average book value of equity decreases by 10%.
 - B) Net income increases by 5% and average book value of equity increases by 5%.
 - C) Net income increases by 5% and average book value of equity increases by 10%.
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Question #14 of 34

Question ID: 434379

Which of the following statements about the role of equities in financing a company's assets is *most accurate*?

- A) The book value and market value of equities is usually the same.
- B) Management can directly increase the market value of equity by increasing net income.

- C) Equity capital is typically used for the purchase of long-term assets and expansion into new areas.
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Question #15 of 34

Question ID: 415264

A security that represents an equity share in a foreign firm and for which the voting rights are retained by the depository bank, is a(n):

- A) unsponsored depository receipt.
 - B) American depository share.
 - C) global registered share.
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Question #16 of 34

Question ID: 434378

Common equity share types ranked from least risky to most risky are:

- A) puttable, option-free, callable.
 - B) callable, puttable, option-free.
 - C) option-free, puttable, callable.
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Question ID: 415269

Other things equal, preference shares have the *most* risk for the investor when they are:

- A) non-callable and non-cumulative.
 - B) puttable and cumulative.
 - C) callable and non-cumulative.
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Question #18 of 34

Question ID: 415263

Liquidity of private equity is *most likely*:

- A) greater than liquidity of public equity.
 - B) about equal to liquidity of public equity.
 - C) less than liquidity of public equity.
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Question ID: 415270

In a period when U.S. equity prices are increasing and the U.S. dollar is depreciating, which of the following investors in U.S. equities is *most likely* to earn the highest return in the investor's local currency?

- A) U.S. investor who reinvests dividends.
 - B) Non-U.S. investor who does not reinvest dividends.
 - C) Non-U.S. investor who reinvests dividends.
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Question #20 of 34

Question ID: 434381

Which of the following statements about book value of equity is *most accurate*?

- A) Book value of equity reflects the market's perception of the firm's prospects.
 - B) Increases in retained earnings decrease book value.
 - C) The primary goal of firm management is to increase the book value of the firm's equity.
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Question #21 of 34

Question ID: 415254

Dividends on non-participating preference shares are typically:

- A) lower than the dividends on common shares.
 - B) a fixed percentage of par value.
 - C) a contractual obligation of the company.
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Question ID: 415258

Cheryl Brower and Todd Sutter each own 100 shares of Hills Company stock. In a recent proxy vote, Brower had 100 votes but Sutter had 10 votes. The *most likely* reason for this difference in voting rights is that:

- A) Brower and Sutter own different classes of stock.
 - B) Brower is a director of Hills Company.
 - C) Hills Company uses a statutory voting method.
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Question #23 of 34

Question ID: 415260

Compared to a publicly traded firm, a private equity firm is *most likely* to:

- A) be more concerned with short-term results.
- B) exhibit stronger corporate governance.
- C) disclose less information about its financial performance.

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Question ID: 415267

Preference shares will have the *most* risk for the investor if the shares are:

- A) callable and cumulative.
 - B) callable and non-cumulative.
 - C) non-callable and non-cumulative.
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Question ID: 415256

Johnson Company shuts down and is liquidated. Bob Smith owns 100 common shares of Johnson, but has a lower priority of claims than Al Jones, who also owns 100 common shares. Smith *most likely* owns:

- A) non-cumulative shares.
 - B) Class B shares.
 - C) non-participating shares.
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Question ID: 415274

Pearl River Heavy Industries shows the following information in its financial statements:

Total Assets	HK\$146,000,000
Total Liabilities	HK\$87,000,000
Net Income	HK\$27,000,000
Price per Share	HK\$312
Shares Outstanding	200,000

The equity securities of Pearl River have a:

- A) book value of HK\$62,400,000.
 - B) book value of HK\$59,000,000.
 - C) market value of HK\$146,000,000.
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Question ID: 415255

Participating preference shares *most likely*:

- A) receive extra dividends if firm profits exceed a predetermined threshold.
 - B) give the shareholder the right to sell the shares back to the firm at a specific price.
 - C) can be exchanged for common stock at a ratio determined at issuance.
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Question #28 of 34

Question ID: 415272

The primary reason for a firm to issue equity securities is to:

- A) increase publicity for the firm's products.
 - B) improve its solvency ratios.
 - C) acquire the assets necessary to carry out its operations.
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Question #29 of 34

Question ID: 415277

A firm's cost of equity capital is *least* accurately described as the:

- A) expected total return on the firm's equity shares in equilibrium.
 - B) minimum rate of return investors require to invest in the firm's equity securities.
 - C) ratio of the firm's net income to its average book value.
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Question #30 of 34

Question ID: 415268

Other things equal, which of the following types of stock has the *most* risk from the investor's perspective?

- A) Callable common share.
 - B) Callable preferred share.
 - C) Puttable common share.
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Question #31 of 34

Question ID: 415266

A basket of listed depository receipts (BLDR) is *best* described as a(n):

- A) special purpose vehicle for issuing depository receipts in multiple countries.
 - B) exchange traded fund of depository receipts.
 - C) index of global depository receipts that trade on a specific exchange.
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Question #32 of 34

Question ID: 415273

Equity securities are *least likely* issued to finance:

- A) equipment.
- B) inventories.
- C) research and development.

Question #33 of 34

Question ID: 415259

Two investors, Craig Tower and Erin Gray, own 100 shares each of the same company. Tower receives a quarterly dividend while Gray does not. This is *most likely* because Tower:

- A) owns common shares while Gray owns preferred shares.
 - B) purchased his shares after Gray purchased her shares.
 - C) owns a different class of stock than Gray.
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Question #34 of 34

Question ID: 415257

With which of the following types of equity shares does the investor typically have the greatest voting power?

- A) Common shares.
- B) Participating preference shares.
- C) Unsponsored depository receipts.