Reading 48: Introduction to Industry and Company Analysis

Question #1 of 40

Question ID: 496424

When classifying companies into peer groups for analysis, an analyst should:

A) include each company in only one peer group.
B) examine firms' annual reports to see if they identify competitors.
C) disregard industry classifications from commercial providers.

Question #2 of 40

Question ID: 415286

A firm's earnings are *most likely* to be cyclical if:

A) the firm operates in a growth industry.
B) most of the firm's costs depend on its level of output.
C) the firm produces luxury items.

Question #3 of 40

Question ID: 415283

Auto manufacturers and home builders would *most likely* be grouped together in an industry classification system based on:

A) dividend yields.
B) type of business activity.
C) sensitivity to business cycles.

Question #4 of 40

Question ID: 415282

Commercial industry classification systems such as the Global Industry Classification Standard (GICS) typically classify firms according to their:

A) principal business activities.
B) sensitivity to business cycles.
C) correlations of historical returns.

Question #5 of 40

Question ID: 415287

Starr Company is an asset management firm. Thomas Company is a manufacturer of apparel. Assuming these firms are representative of their industry groups, how are they *best* classified with regard to their sensitivity to the business cycle?

	Starr	Thomas
A)	Cyclical	Cyclical
B)	Cyclical	Non-cyclical
C)	Non-cyclical	Non-cyclical

Question #6 of 40

Question ID: 415281

During the contraction phase of the business cycle, how will an active portfolio manager using an industry rotation strategy treat stocks of companies in a cyclical industry?

A) Overweight the industry.
B) Maintain the target weight of the industry.
C) Underweight the industry.

Question #7 of 40

Question ID: 434382

Commercial index providers typically classify companies by:

A) sensitivity to business cycles.
B) principal business activity.
C) statistical grouping.

Question #8 of 40

Question ID: 415297

A firm is *most likely* to have pricing power if:

A) costs to exit the industry are high.
B) its market share is high.
C) its product is differentiated.

Question #9 of 40

Question ID: 434384

The experience curve, which illustrates the cost per unit relative to output:

A) slopes downward.

B) slopes upward in the early years and downward in the later years.

C) slopes upward.

Question #10 of 40

Question ID: 434386

Factors that increase competition in an industry *most likely* include:

A) high barriers to entry, low concentration, and low unused capacity.

B) low barriers to entry, high concentration, and high unused capacity.

C) low barriers to entry, low concentration, and high unused capacity.

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Question ID: 415309

An aggressive price reduction to gain market share is *most likely* to be associated with a:

A) product differentiation strategy.

B) cost leadership strategy.

C) service differentiation strategy.

Question #12 of 40

Question ID: 415288

Which of the following types of industries is typically characterized by stable performance during both expansions and contractions of the business cycle?

A) Cyclical.

B) Defensive.

C) Growth.

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Question ID: 415305

In which of the following industries are technological factors *least likely* a significant influence?

A) Pharmaceuticals.

B) Oil services.

C) Confections.

Question #14 of 40

Question ID: 434387

A firm is *most likely* to have pricing power if it operates in an industry characterized by:

A) high concentration, undercapacity, and low market share stability.

B) low concentration, overcapacity, and high market share stability.

C) high concentration, undercapacity, and high market share stability.

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Question ID: 415284

Food, beverage, and utility companies are examples of:

A) declining industries.

B) defensive industries.

C) cyclical industries.

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Question ID: 598998

The competitive forces identified by Michael Porter include:

A) power of existing competitors and threat of entry.

B) threat of substitutes and rivalry among suppliers.

C) rivalry among existing competitors and power of buyers.

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Question ID: 415302

Declining prices that result from the development of substitute products are *most likely* to characterize an industry in the:

A) shakeout stage.

B) mature stage.

C) decline stage.

Question #18 of 40

Question ID: 415298

Market share stability within an industry is *least likely* to result from a high level of:

A) switching costs.

B) product innovation.

C) barriers to entry.

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Question ID: 415306

Which of the following industries is likely to be most sensitive to the business cycle?

A) Pharmaceutical.
B) Automobile.
C) Confectionery.

Question #20 of 40

Question ID: 415308

Technological changes are *most likely* to result in which of the following effects? Evolving technology is likely to result in changes in:

A) the relative demand for various products only.
B) educational curriculum only.
C) educational curriculum and the relative demand for various products.

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Question ID: 415310

A firm that pursues a differentiation strategy is *most likely* to emphasize:

A) gains in market share.
B) market research.
C) operating efficiency.

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Question ID: 598996

The threat of substitutes is *most likely* to be low for a firm that:

A) produces a differentiated product with high switching costs.
B) operates in a fragmented market with little unused capacity.
C) produces a commodity product in an industry with significant unused capacity.

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Question ID: 415290

When constructing a peer group of firms, an analyst should *least* appropriately consider the firms':

A) cost structures.
B) industry classification.
C) business cycle sensitivity.

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Question ID: 415280

Industry analysis is *most likely* to provide an analyst with insight about a company's:

A) pricing power.

B) financial performance.

C) competitive strategy.

Question #25 of 40

Question ID: 415292

A manager tells a research analyst, "A thorough industry analysis should use more than one approach to estimate industry variables," and "An analyst should not compare his valuations to those of other analysts." Which of these two statements is (are) CORRECT?

A) Only one of these statements is accurate.

B) Neither of these statements is accurate.

C) Both of these statements are accurate.

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Question ID: 415285

Which of the following industries is *most likely* to be classified as non-cyclical?

A) Housing.

B) Autos.

C) Utilities.

Question #27 of 40

Question ID: 415307

Changes in population size and average age that affect industry growth and profitability are *best* described as:

A) macroeconomic influences.

B) social influences.

C) demographic influences.

Question #28 of 40

Question ID: 415301

Which of the following statements about the industry life cycle is *most* accurate?

A) The growth stage is typically characterized by decreasing prices.

B) Industry growth rates are highest in the embryonic stage.

C) The mature stage is followed by a shakeout stage and a decline stage.

Question #29 of 40

Question ID: 434389

Factors affecting industry growth that are related to the composition and age distribution of the population are *best* described as:

A) demographic factors.

B) social influences.

C) macroeconomic factors.

Question #30 of 40

Question ID: 415291

For relative valuation, a peer group is *best* described as companies:

A) in a similar sector or industry classification.

B) with similar business activities and competitive factors.

C) at a similar stage of the industry life cycle.

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Question ID: 434383

Stages of an industry life cycle in chronological order are:

A) embryonic, growth, shakeout, mature, and decline.

B) embryonic, growth, mature, shakeout, and decline.

C) growth, shakeout, mature, decline, and embryonic.

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Question ID: 434388

Which of the following statements about switching costs is *most accurate*?

A) Low switching costs contribute to market share stability.

B) Switching costs tend to be lower for specialized products.

C) Switching costs include the time needed to learn to use a competitor's product.

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Question ID: 415303

Wallace Kidwell is classifying an industry as to its life-cycle stage. Kidwell notes that the industry's growth is stable and largely limited to replacement demand and overall population increases. The companies that comprise the industry have achieved efficient cost structures and strong brand loyalty. This level of brand loyalty has resulted in very few price wars. Kidwell will *most likely* classify the industry life cycle stage as being:

A) Mature.
B) Decline.
C) Shakeout.

Question #34 of 40

Question ID: 415299

Which of the following conditions is *most likely* to indicate that barriers to entry into an industry are low?

A) Investment capital is available at low cost.
B) The industry has significant economies of scale.
C) Market shares have been stable over the last two business cycles.

Question #35 of 40

Question ID: 598997

Economic profits are *most likely* to be earned by firms in an industry that is characterized by:

A) low threat of substitutes and high rivalry among existing competitors.
B) high barriers to entry and low power of buyers.
C) high power of suppliers and low threat of entry.

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Question ID: 627888

After completing a thorough industry analysis, which of the following is *most likely* an additional element an analyst should examine when analyzing a specific company within the industry?

A) Competitive strategy.
B) Threat of entry.
C) Power of buyers.

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Question ID: 415293

The industry experience curve illustrates the relationship between:

A) cumulative output and cost per unit.
B) company age and profitability.
C) productivity and average years of employment.

Question #38 of 40

Question ID: 415300

Pricing power for the firms in an industry is *most likely* to result from low:

A) barriers to entry.

B) industry concentration.

C) levels of capacity.

Question #39 of 40

Question ID: 415304

Which of the following industries is *most likely* to operate in a fragmented market?

A) Pharmaceuticals.

B) Confections.

C) Oil services.

Question #40 of 40

Question ID: 415289

Which of the following types of industries is typically characterized by above-normal expansion in sales and profits independent of the business cycle?

A) Growth.

B) Defensive.

C) Counter-cyclical.