Session 23: Post Class tests

1. There is evidence that companies acquire a dividend clientele that reflects their dividend policy. Thus, if you pay high dividends, you accumulate investors who like high dividends and if you pay no dividends, you get investors with that preference. If you do pay high dividends, which of the following groups of investors are you more likely to see holding your stock? (You can pick more than one)
    a. Wealthy & younger individuals
    b. Older & poorer individuals
    c. Growth-oriented mutual funds
    d. Income-oriented mutual funds
    e. Pension funds
2. Assume that you are the CEO of a large power company that has historically had a monopoly position in the market giving it stable earnings, thus allowing it to pay out 80% of its earnings as dividends. The government has just announced that it will be opening the power market to competition from both domestic and foreign companies. Which of the following actions would you take on dividends, given this announcement?
    a. Nothing. I will continue to pay out 80% of earnings
    b. Freeze absolute dividends, allowing the payout ratio to decrease over time (as earnings increase)
    c. Increase the dividend payout ratio, to signal confidence in your capacity to beat the competition.
    d. Eliminate dividends entirely
    e. Reduce your payout ratio to 60%
    f. Something else
3. Dividend changes can operate as signals to the market. Is an increase in dividends always a positive signal?
    a. Yes
    b. No

    Explain.

4. Assume that you are a firm that is considering suspending dividends, to redirect cash to much needed investment projects that potentially could generate significant profits for the company in future years. Which of the following market reactions would you most expect to see to your announcement of a dividend suspension (accompanied by an explanation of the investments that you plan to take with the cash)?
    a. Positive in both the short and the long term.
    b. No effect in the short term, positive in the long term
    c. Positive in the short term, Negative in the long term.
    d. Negative in the short term and long term
    e. Negative in the short term, Positive in the long term

f. No effect in either the short or long term

5. Assume that you are a bondholder in a company that has just announced a large stock buyback. The stock price has jumped up sharply in response. What would you expect the bond price to do?
    a. Increase. If it is good news for stockholders, it has to be good news for bondholders.
    b. No change. Bondholders are unaffected by a special dividend,
    c. Decrease.
    Explain.