

Session 26

Information Trading: Public Information – Other than Earnings

Test

1. Which of the following statements best describes the stock price behavior of target firms around acquisition announcements?
 - a. The target firm's stock price starts drifting down before the acquisition announcement and jumps up on the acquisition announcement.
 - b. The target firm's stock price is flat before the acquisition announcement and jumps further up on the acquisition announcement.
 - c. The target firm's stock price starts drifting up before the acquisition announcement and jumps further up on the acquisition announcement.
2. Which of the following statements best describes the returns earned by target and acquiring company stockholders from acquisitions?
 - a. Both target and acquiring company stockholders make significant positive returns.
 - b. Both target and acquiring company stockholders make significant negative returns.
 - c. Target company stockholders lose money a significant proportion of the time but acquiring company stockholders make significant positive returns.
 - d. Acquiring company stockholders lose money a significant proportion of the time but target company stockholders make significant positive returns.
3. Many mergers/acquisitions are justified on the basis of synergy, where the combined firm is more valuable than the individual firms. Looking at the studies of post-merger performance, which of the following conclusions would you draw about synergy in mergers?
 - a. There is substantial synergy and acquiring companies pay too little for the synergy.
 - b. There is substantial synergy but acquiring companies pay too much for the synergy.
 - c. There is little, no or reverse synergy and acquiring companies pay too little for the synergy.
 - d. There is little, no or reverse synergy and acquiring companies pay too much for the synergy.
4. Which of the following best characterizes the findings from studies of dividend announcements across all companies?
 - a. Dividend increases or decreases have no effect on stock prices.
 - b. Stock prices go up a lot when dividends are increased and go down a little when dividends are decreased /suspended.
 - c. Stock prices go up a little when dividends are increased and go down by a larger amount, when dividends are decreased /suspended.

- d. Stock prices go up a lot when dividends are increased and go down by less, when dividends are decreased /suspended.
5. Studies also seem to indicate that the market reaction to dividend announcements has decreased over time. Which of the following may explain this phenomenon?
- a. Fewer companies pay dividends, and these companies tend to be larger and more widely followed by analysts.
 - b. Companies collectively return more cash to stockholders in the form of stock buybacks than dividends.
 - c. Investors are less likely to follow dividend-based investment strategies.
 - d. The proportion of stock held by institutions has increased.
 - e. All of the above.