36 OVERVIEW OF EQUITY SECURITIES

1. 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) Proportional voting system.
   (C) Statutory voting system.

2. Common equity share types ranked from least risky to most risky are:
   (A) Callable, putable, option-free.
   (B) option-free, putable, callable.
   (C) putable, option-free, callable.

3. 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.

4. The primary reason for a firm to issue equity securities is to:
   (A) acquire the assets necessary to carry out its operations.
   (B) improve its solvency ratios.
   (C) increase publicity for the firm's products.

5. Compared to preferred stock, common stock is most likely to:
   (A) Exhibit a lower standard deviation of returns.
   (B) Pay more frequent dividends.
   (C) Provide a higher average return.

6. 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) Class B shares.
   (B) Non-cumulative shares.
   (C) Non-participating shares.

7. A basket of listed depository receipts (BLDR) is best described as a(n):
   (A) exchange traded fund of depository receipts.
   (B) index of global depository receipts that trade on a specific exchange.
   (C) special purpose vehicle for issuing depository receipts in multiple countries.

8. 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) American depository share.
   (B) Global registered share.
   (C) Unsponsored depository receipt.

9. For a non-dividend paying firm, an increase in net income must increase:
   (A) Book value of equity.
   (B) Both book value and market value of equity.
   (C) Market value of equity.

10. 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) Hills Company uses a statutory voting method.
   (B) Brower and Sutter own different classes of stock.
   (C) Brower is a director of Hills Company.

11. Hodges Fund provides mezzanine stage financing to private companies. In which type of private equity investing is Hodges Fund most likely involved?
   (A) Leveraged buyout.
   (B) Private investment in public equity.
   (C) Venture capital.

12. 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 10%.
   (C) Net income increases by 5% and average book value of equity increases by 5%.

13. Other things equal, preference shares have the most risk for the investor when they are:
   (A) non-callable and non-cumulative.
   (B) putable and cumulative.
   (C) callable and non-cumulative.

14. A U.S. investor purchases ADRs of a Japanese company, while a Japanese investor purchases the same value of the company's common stock. Compared to the Japanese investor, the U.S. investor will most likely.
    (A) benefit from greater transparency.
    (B) face the same risk.
    (C) realize different returns.

15. Securities that can be sold back to the issuing firm at a specific price are best described as:
    (A) putable.
    (B) Convertible.
    (C) Callable.

16. When analyzing an industry characterized by increasing book values of equity, return on equity for a period is most appropriately calculated based on:
    (A) Ending book value.
    (B) Beginning book value.
    (C) Average book value.

17. Global depository receipts are most likely issued:
    (A) In the United States and denominated in U.S. dollars.
    (B) Outside the issuer's home country and denominated in the exchange's home currency.
    (C) Outside the issuer's home country and denominated in U.S. dollars.

18. Private equity investment securities are issued:
    (A) Only by private firms.
    (B) By both public and private firms.
    (C) By public firms but not by private firms.

19. The difference between a firm's balance sheet assets and liabilities is equal to the firm's:
    (A) book value of equity.
    (B) Market value of equity.
    (C) Intrinsic value of equity.

20. 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.

21. Which of the following statements about the role of equities in financing a company's assets is most accurate?
    (A) Equity capital is typically used for the purchase of long-term assets and expansion into new areas.
    (B) Management can directly increase the market value of equity by increasing net income.
    (C) The book value and market value of equities is usually the same.

22. 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) Non-U.S. investor who does not reinvest dividends.
    (B) Non-U.S. investor who reinvests dividends.
    (C) U.S. investor who reinvests dividends.

23. The book value of equity is equal to a firm's assets:
    (A) Minus its liabilities.
    (B) plus its retained earnings.
    (C) Plus it's accumulated other comprehensive income.

24. 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.

25. Other things equal, which of the following types of stock has the most risk from the investor's perspective?
    (A) Putable common share.
    (B) Callable common share.
    (C) Callable preferred share.

26. Dividends on non-participating preference shares are typically:
    (A) a contractual obligation of the company.
    (B) a fixed percentage of par value.
    (C) lower than the dividends on common shares.

27. Requiring the firm to pay any scheduled dividends that have been missed, before paying any dividends to common equity holders, is a feature of:
    (A) Participating preference shares only.
    (B) All preference shares.
    (C) Cumulative preference shares only.

28. Compared to a publicly traded firm, a private equity firm is most likely to:
    (A) Disclose less financial information.
    (B) Exhibit stronger corporate governance.
    (C) Be more concerned with short-term results.

29. 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.

30. 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) Owns a different class of stock than Gray.
    (C) Purchased his shares after Gray purchased her shares

31. Participating preference shares most likely.
    (A) Receive extra dividends if firm profits exceed a predetermined threshold.
    (B) Can be exchanged for common stock at a ratio determined at issuance.
    (C) Give the shareholder the right to sell the shares back to the firm at a specific price.

32. Equity securities are least likely issued to finance:
    (A) Research and development.
    (B) Inventories.
    (C) Equipment.