37 INTRODUCTION TO INDUSTRY AND COMPANY ANALYSIS

1. Technological changes are most likely to result in which of the following effects? Evolving technology is likely to result in changes in:
   (A) Educational curriculum and the relative demand for various products.
   (B) The relative demand for various products only.
   (C) Educational curriculum only.

2. 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.

3. According to typical commercial industry classification systems, which of the following industries is classified in the consumer discretionary sector?
   (A) Apparel.
   (B) Tobacco.
   (C) Internet services.

4. Which of the following types of industries is typically characterized by above-normal expansion in sales and profits independent of the business cycle?
   (A) Defensive.
   (B) Growth.
   (C) Counter-cyclical.

5. Which of the following industries is likely to be most sensitive to the business cycle?
   (A) Confectionery.
   (B) Pharmaceutical.
   (C) Automobile.

6. 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.

7. Declining prices that result from the development of substitute products are most likely to characterize an industry in the:
   (A) decline stage.
   (B) mature stage.
   (C) shakeout stage.

8. Factors that increase competition in an industry most likely include:
   (A) low barriers to entry, low concentration, and high unused capacity.
   (B) high barriers to entry, low concentration, and low unused capacity.
   (C) low barriers to entry, high concentration, and high unused capacity.

9. Food, beverage, and utility companies are examples of:
   (A) cyclical industries.
   (B) declining industries.
   (C) defensive industries.

10. A conglomerate is in the following lines of business, with segment revenue as a percentage of total revenue: 30% banking, 30% automobiles, 25% apparel, and 15% heavy machinery. Based on the Global Industry Classification Standard, the sector classification for this company is most likely.
   (A) consumer discretionary.
   (B) financial services.
   (C) industrials.

11. Commercial industry classification systems such as the Global Industry Classification Standard (GICS) typically classify firms according to their:
   (A) principal business activities.
   (B) correlations of historical returns.
   (C) sensitivity to business cycles.

12. Which of the following conditions is most likely to indicate that barriers to entry into an industry are low?
   (A) The industry has significant economies of scale.
   (B) Investment capital is available at low cost.
   (C) Market shares have been stable over the last two business cycles.

13. High return on invested capital and high pricing power are most likely to be associated with an industry that has:
    (A) high concentration.
    (B) high capacity.
    (C) low barriers to entry.

14. Changes in population size and average age that affect industry growth and profitability are best described as:
    (A) macroeconomic influences.
    (B) demographic influences.
    (C) social influences.

15. The experience curve, which illustrates the cost per unit relative to output:
    (A) slopes upward in the early years and downward in the later years.
    (B) slopes downward.
    (C) slopes upward.

16. 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

17. 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.

18. 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) Both of these statements are accurate.
    (B) Neither of these statements is accurate.
    (C) Only one of these statements is accurate.

19. Market share stability within an industry is least likely to result from a high level of:
   - (A) barriers to entry.
   - (B) switching costs.
   - (C) product innovation.

20. A firm's earnings are most likely to be cyclical if:
   - (A) most of the firm's costs depend on its level of output.
   - (B) the firm produces luxury items.
   - (C) the firm operates in a growth industry.

21. Commercial index providers typically classify companies by:
   - (A) statistical grouping.
   - (B) principal business activity.
   - (C) sensitivity to business cycles.

22. For relative valuation, a peer group is best described as companies:
   - (A) at a similar stage of the industry life cycle.
   - (B) in a similar sector or industry classification.
   - (C) with similar business activities and competitive factors.

23. Which of the following types of industries is typically characterized by stable performance during both expansions and contractions of the business cycle?
   - (A) Defensive.
   - (B) Growth.
   - (C) Cyclical.

24. The industry experience curve illustrates the relationship between:
   - (A) company age and profitability.
   - (B) cumulative output and cost per unit.
   - (C) productivity and average years of employment.

25. A firm is most likely to have pricing power if it operates in an industry characterized by:
   - (A) high concentration, under capacity, and high market share stability.
   - (B) high concentration, under capacity, and low market share stability.
   - (C) low concentration, overcapacity, and high market share stability.

26. Which of the following statements about switching costs is most accurate?
    (A) Switching costs tend to be lower for specialized products.
    (B) Switching costs include the time needed to learn to use a competitor's product.
    (C) Low switching costs contribute to market share stability.

27. 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) Power of buyers.
    (C) Threat of entry.

28. An aggressive price reduction to gain market share is most likely to be associated with a:
    (A) Service differentiation strategy.
    (B) Cost leadership strategy.
    (C) Product differentiation strategy.

29. Which of the following classifications of firms is least likely to comprise cyclical firms?
    (A) Telecommunications.
    (B) Housing.
    (C) Technology.

30. 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.

31. The competitive forces identified by Michael Porter include:
    (A) power of existing competitors and threat of entry.
    (B) rivalry among existing competitors and power of buyers.
    (C) threat of substitutes and rivalry among suppliers.

32. Over the past few years, the companies in an industry have experienced positive but decreasing profitability and growth rates. The companies have begun to compete intensely with each other and customers switch frequently among brands. This industry's life-cycle stage is most accurately described as:
    (A) Shakeout.
    (B) Growth.
    (C) Maturity.

33. During the contraction phase of the business cycle, how will an active portfolio manager using an industry rotation strategy most likely treat stocks of companies in a cyclical industry?
    (A) Rotate out of the industry.
    (B) Maintain the target weight of the industry.
    (C) Underweight the industry.

34. Which of the following industries is best described as non-cyclical and defensive?
    (A) Technology.
    (B) Consumer staples.
    (C) Energy.

35. Industry analysis is most likely to provide an analyst with insight about a company's:
    (A) Competitive strategy.
    (B) Financial performance.
    (C) Pricing power.

36. Economic profits are most likely to be earned by firms in an industry that is characterized by:
    (A) High power of suppliers and low threat of entry.
    (B) High barriers to entry and low power of buyers.
    (C) Low threat of substitutes and high rivalry among existing competitors.

37. Which of the following statements about the industry life cycle is most accurate?
    (A) Industry growth rates are highest in the embryonic stage.
    (B) The growth stage is typically characterized by decreasing prices.
    (C) The mature stage is followed by a shakeout stage and a decline stage.

38. A firm that pursues a differentiation strategy is most likely to emphasize:
    (A) Gains in market share.
    (B) Market research.
    (C) Operating efficiency.

49. In which of the following industries are technological factors least likely a significant influence?
    (A) Confections.
    (B) Oil services.
    (C) Pharmaceuticals.

40. In the industry life cycle, the growth stage is typically followed by a:
    (A) Shakeout Stage.
    (B) Mature stage.
    (C) Decline stage.

41. Auto manufacturers and home builders would most likely be grouped together in an industry classification system based on:
    (A) products and services.
    (B) sensitivity to business cycles.
    (C) returns correlations.

42. When classifying companies into peer groups for analysis, an analyst should:
    (A) disregard industry classifications from commercial providers.
    (B) examine firms' annual reports to see if they identify competitors.
    (C) include each company in only one peer group.

43. 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) Decline.
    (B) Shakeout.
    (C) Mature.

44. Which of the following industries is most likely to be classified as non-cyclical?
    (A) Autos.
    (B) Utilities.
    (C) Housing.