

Advanced Stock Market Concepts for Young Investors

Stock Markets · Answer Key · 18 Questions

1. Which of the following is a primary function of a stock exchange?

- A) Issuing new debt securities
- B) Facilitating the buying and selling of publicly traded shares**
- C) Setting interest rates for commercial loans
- D) Regulating the national currency supply

2. What does a 'bull market' typically signify for stock prices?

- A) A prolonged period of falling prices
- B) A general upward trend in prices**
- C) Extreme volatility with no clear direction
- D) A stable market with minimal price fluctuations

3. Which financial metric represents the total market value of a company's outstanding shares?

- A) Earnings Per Share (EPS)
- B) Price-to-Earnings Ratio (P/E)
- C) Market Capitalization**
- D) Dividend Yield

4. What is the primary purpose of an Initial Public Offering (IPO)?

- A) To allow existing shareholders to sell their shares
- B) To enable a company to raise capital by selling shares to the public for the first time**
- C) To consolidate ownership within a private group
- D) To buy back outstanding shares from the market

5. When a stock's price is considered 'overvalued', what does this commonly suggest?

- A) The company's intrinsic value is higher than its current stock price
- B) The stock price is significantly higher than its perceived fundamental value**
- C) The company has recently announced record profits
- D) The stock is expected to experience rapid growth

6. What does the term 'dividend reinvestment plan' (DRIP) allow shareholders to do?

- A) Receive cash dividends directly into their bank accounts
- B) Purchase additional shares of the company's stock using their cash dividends**
- C) Sell their shares at a discounted price
- D) Borrow money against their dividend income

7. Which of these best describes the function of a 'stockbroker'?

- A) A company that issues new stocks
- B) An individual or firm that executes buy and sell orders for clients**
- C) A regulator of stock exchange activities
- D) A financial analyst who determines stock valuations

8. What is a 'limit order' in stock trading?

- A) An order to buy or sell a stock at the best available current price
- B) An order to buy or sell a stock at a specific price or better**
- C) An order that remains open until it is cancelled
- D) An order to buy a stock only if its price falls below a certain level

9. Which type of stock typically pays a consistent dividend and is considered less volatile?

- A) Growth Stock
- B) Speculative Stock
- C) Blue-Chip Stock**
- D) Penny Stock

10. What does the 'beta' of a stock measure?

- A) The company's profitability
- B) The stock's volatility relative to the overall market**
- C) The dividend payout ratio
- D) The company's debt-to-equity ratio

11. What is a 'short squeeze' in the stock market?

- A) When a stock's price rapidly increases, forcing short sellers to buy shares to cover their positions**
- B) When a stock's price rapidly decreases, leading to losses for long investors
- C) When a company unexpectedly announces strong earnings
- D) When a large number of investors simultaneously buy a particular stock

12. Which of the following is a characteristic of a 'bear market'?

- A) Widespread investor optimism and rising stock prices
- B) A sustained decline in stock prices, often by 20% or more**
- C) Increased trading volume due to speculative buying
- D) Government intervention to stabilize markets

13. What is a 'bond' in the context of finance?

- A) A unit of ownership in a company
- B) A loan made by an investor to a borrower (typically corporate or governmental)**
- C) A derivative contract based on an underlying asset
- D) A mutual fund that invests in real estate

14. What does the 'ex-dividend date' signify for a stock?

- A) The date on which a dividend is paid to shareholders
- B) The last day a shareholder can buy a stock and still receive the upcoming dividend**
- C) The date a company announces its quarterly earnings
- D) The date when a stock split becomes effective

15. What is the primary role of a 'market maker' on a stock exchange?

- A) To provide liquidity by being ready to buy or sell a particular security**
- B) To set the official opening and closing prices of stocks
- C) To audit the financial statements of listed companies
- D) To advise individual investors on their portfolio choices

16. Which of the following is a common reason for a stock split?

- A) To decrease the number of outstanding shares and increase the stock price
- B) To make the stock more affordable and accessible to a wider range of investors**
- C) To signal financial distress in the company
- D) To avoid paying dividends to shareholders

17. What does the 'Securities and Exchange Commission' (SEC) primarily do in the US?

- A) Sets interest rates for the economy
- B) Regulates the stock and other securities markets**
- C) Issues new currency for the nation
- D) Manages the country's gold reserves

18. What is a 'stock index' such as the S&P 500?

- A) A single stock that represents the performance of an entire industry
- B) A portfolio of stocks designed to track the performance of a specific market segment or the overall market**
- C) A government bond issued by the largest companies
- D) A type of mutual fund that only invests in international stocks