

Fundamentals of Stock Markets

Economics · Answer Key · 25 Questions

1. Which term describes the first time a private company offers shares to the public on a stock exchange?

- A) IPO**
- B) Dividend
- C) Bond
- D) Mutual Fund

2. What is the primary function of a stock exchange?

- A) To regulate international trade
- B) To provide a platform for buying and selling securities**
- C) To print national currency
- D) To manage personal savings accounts

3. Which of the following is a primary index that tracks the performance of the largest companies listed on the Australian Securities Exchange (ASX)?

- A) S&P 500
- B) FTSE 100
- C) ASX 200**
- D) Nikkei 225

4. What does a 'dividend' represent to a shareholder?

- A) A fee paid to the stockbroker
- B) A share of the company's profits distributed to owners**
- C) A tax deduction for investors
- D) The cost of purchasing one share

5. What does the term 'volatility' refer to in the context of the stock market?

- A) The total number of shares available
- B) The interest rate set by central banks
- C) The frequency and magnitude of price fluctuations**
- D) The length of time a stock is held

6. Which entity is responsible for regulating the securities market in Australia?

- A) Reserve Bank of Australia
- B) Australian Securities and Investments Commission (ASIC)**
- C) Australian Taxation Office
- D) Department of Finance

7. What is a 'blue-chip' stock?

- A) A high-risk, speculative start-up stock
- B) A stock that pays no dividends
- C) A stock in a large, well-established, and financially stable company**
- D) A bond issued by a foreign government

8. What is the 'bid price' in a stock transaction?

- A) The highest price a buyer is willing to pay**
- B) The lowest price a seller is willing to accept
- C) The average price over the last year
- D) The closing price of the previous day

9. What happens to the price of a stock if market demand significantly exceeds market supply?

- A) The price stays the same
- B) The price decreases
- C) The price increases**
- D) The stock is delisted

10. Which of the following represents a 'bear market'?

- A) A period of prolonged price increases
- B) A period of prolonged price declines**
- C) A period of steady economic growth
- D) A period where inflation is zero

11. What is the primary difference between a stock and a bond?

- A) Stocks represent ownership, bonds represent debt**
- B) Bonds represent ownership, stocks represent debt
- C) Stocks have a fixed maturity date
- D) Bonds always offer higher returns than stocks

12. What does a 'market capitalization' indicate about a company?

- A) The number of employees
- B) The total value of a company based on share price**
- C) The amount of debt owed to banks
- D) The annual tax paid by the company

13. In a stock market context, what is a 'broker'?

- A) A person who buys all the stock for themselves
- B) A government official who sets share prices
- C) An intermediary who facilitates the buying and selling of securities**
- D) A software that prints currency

14. What is the 'ask price' in a stock market?

- A) The price the company wants to be worth
- B) The lowest price at which a seller is willing to sell**
- C) The closing price for the day
- D) The initial public offering price

15. What is an 'index fund'?

- A) A fund that tries to outperform the market by picking stocks
- B) A fund designed to track the performance of a specific market index**
- C) A fund that only invests in government bonds
- D) A fund that is managed by a single individual without oversight

16. What is a 'secondary market'?

- A) A market where IPOs are first issued
- B) A market where existing securities are traded between investors**
- C) A market strictly for government bonds
- D) A market for physical goods only

17. Which of the following is a common reason why companies issue stock?

- A) To avoid paying taxes
- B) To raise capital for business expansion**
- C) To decrease the number of shareholders
- D) To reduce their annual revenue

18. What is 'diversification' in an investment portfolio?

- A) Putting all money into one company's stock
- B) Spreading investments across various assets to reduce risk**
- C) Only buying stocks in one industry
- D) Buying only the most expensive stocks available

19. What does the 'P/E ratio' (Price-to-Earnings ratio) measure?

- A) The dividend yield of a stock
- B) The ratio of share price to earnings per share**
- C) The company's total debt to equity
- D) The growth rate of a company's workforce

20. What is a 'limit order'?

- A) An order to buy or sell a stock at a specific price or better**
- B) An order to buy stock at any current market price
- C) An order to stop trading for the day
- D) An order that is only valid for one minute

21. What is the 'closing price' of a stock?

- A) The price at the moment the market opens
- B) The final price at which a stock traded during the regular trading session**
- C) The price set by the government at the end of the month
- D) The average of all trading prices for the year

22. What is a 'bull market'?

- A) A market with falling prices
- B) A market with rising prices**
- C) A market with constant, flat prices
- D) A market where no trades occur

23. What is the primary risk associated with owning common stocks?

- A) Guaranteed loss of principal
- B) The possibility that the share price may decline**
- C) The risk that the stock exchange will close permanently
- D) The requirement to pay monthly maintenance fees

24. What is a 'ticker symbol'?

- A) A legal document proving ownership
- B) A unique series of letters representing a listed security**
- C) A record of the company's history
- D) A tax identification number for investors

25. Which event would typically cause a stock's price to increase significantly in the short term?

- A) A decrease in quarterly earnings
- B) A surprise announcement of a major profitable merger**
- C) An increase in company debt
- D) A decline in market-wide interest rates