Fundamentals of Stock Markets

Economics · Practice Test · 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