

# Advanced Stock Market Fundamentals

Economics And Business Studies · Answer Key · 25 Questions

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**1. Which legal doctrine requires that all material information regarding a publicly traded company must be disclosed to the public simultaneously?**

- A) Fair Disclosure (Reg FD)**
- B) Sarbanes-Oxley Act
- C) The Glass-Steagall Act
- D) The Efficient Market Hypothesis

**2. In market microstructure, what is the 'spread' defined as?**

- A) The dividend yield minus the interest rate
- B) The difference between the bid and ask price**
- C) The total volume of shares traded in a day
- D) The percentage growth of an index over a year

**3. What is the primary function of a 'clearinghouse' in a stock exchange transaction?**

- A) To set the daily opening price of stocks
- B) To provide investment advice to retail traders
- C) To act as the intermediary to guarantee the completion of trades**
- D) To audit the financial statements of listed companies

**4. Which type of order instructs a broker to buy or sell a security only if it reaches a specific price or better?**

- A) Market order
- B) Stop-loss order
- C) Limit order**
- D) Fill-or-kill order

**5. What does the 'beta' coefficient measure in the context of the Capital Asset Pricing Model (CAPM)?**

- A) A stock's volatility relative to the overall market**
- B) The internal rate of return for a corporation
- C) The debt-to-equity ratio of a firm
- D) The liquidity of a company's shares

**6. In the context of corporate finance, what are 'authorized shares'?**

- A) The total number of shares currently held by the public
- B) The maximum number of shares a corporation is legally permitted to issue**
- C) The number of shares traded on a secondary market
- D) The shares held by executive management

**7. Which index is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq?**

- A) S&P 500
- B) Nasdaq Composite
- C) Dow Jones Industrial Average**
- D) Russell 2000

**8. What is the primary purpose of a 'secondary offering' by a public company?**

- A) To register the company for the first time
- B) To raise additional capital by issuing new shares**
- C) To repurchase existing shares from shareholders
- D) To declare bankruptcy

**9. What is the significance of the 'ex-dividend' date?**

- A) The date the dividend is paid to shareholders
- B) The deadline for companies to announce earnings
- C) The date on which a stock begins trading without the value of the next dividend payment**
- D) The date a company is delisted from an exchange

**10. In trading terminology, what is a 'short squeeze'?**

- A) A rapid decline in stock prices
- B) An increase in the number of shares available for borrowing
- C) A situation where rising prices force short sellers to buy back shares to cover positions**
- D) The suspension of trading due to excessive volatility

**11. What term describes a market condition where prices are rising or are expected to rise?**

- A) Bear market
- B) Bull market**
- C) Stagnant market
- D) Contractionary market

**12. Which regulatory body oversees the Australian Securities Exchange (ASX)?**

- A) Reserve Bank of Australia (RBA)
- B) Australian Securities and Investments Commission (ASIC)**
- C) Australian Taxation Office (ATO)
- D) Australian Prudential Regulation Authority (APRA)

**13. What is a 'stock split' primarily intended to do?**

- A) Increase the market capitalization of the firm
- B) Reduce the nominal price per share to make it more affordable**
- C) Convert debt into equity
- D) Dissolve the company's existing share structure

**14. Which ratio is calculated by dividing a company's current share price by its earnings per share (EPS)?**

- A) Price-to-Earnings (P/E) Ratio**
- B) Debt-to-Equity Ratio
- C) Return on Equity (ROE)
- D) Dividend Payout Ratio

**15. What is the function of a 'market maker'?**

- A) To establish the long-term price of a stock based on fundamentals
- B) To provide liquidity by standing ready to buy or sell securities**
- C) To regulate the exchange for illegal trading activity
- D) To underwrite initial public offerings

**16. Which term refers to the risk that a firm will be unable to meet its debt obligations?**

- A) Systemic risk
- B) Market risk
- C) Default risk**
- D) Inflationary risk

**17. In an IPO, what role does an 'underwriter' fulfill?**

- A) They verify the identity of individual investors
- B) They manage the sale of new securities from the issuer to the public**
- C) They provide daily stock price updates to the media
- D) They govern the board of directors of the issuing company

**18. What is the 'float' of a company's stock?**

- A) The total number of shares in existence
- B) The number of shares owned by institutional investors
- C) The number of shares available for the public to trade**
- D) The shares held exclusively by company insiders

**19. What describes the 'Efficient Market Hypothesis' (EMH)?**

**A) A theory that stock prices always reflect all available information**

- B) A system for guaranteeing profit in stock trading
- C) A method for calculating the exact value of a firm
- D) A regulation that prevents insider trading

**20. What is the primary characteristic of a 'preferred share' compared to common stock?**

A) It provides higher voting rights

**B) It grants a fixed dividend priority over common stock**

- C) It guarantees the stock price will rise
- D) It allows shareholders to control the board of directors

**21. Which term describes trading based on non-public, material information?**

A) Market manipulation

B) Short selling

**C) Insider trading**

D) Arbitrage

**22. What does the 'SEC' (Securities and Exchange Commission) primary represent in the United States?**

A) A private investor group

**B) The federal agency responsible for regulating securities markets**

- C) A stock exchange index
- D) A corporate accounting firm

**23. What is an 'ETF' (Exchange-Traded Fund)?**

**A) A mutual fund that trades like an individual stock on an exchange**

- B) A contract to buy an asset at a future date
- C) A bond issued by a local government
- D) A type of high-risk derivative

**24. What is 'arbitrage' in the context of stock markets?**

**A) The simultaneous purchase and sale of an asset to profit from price differences**

- B) Holding a stock for over ten years
- C) Buying stocks exclusively during market dips
- D) Using leverage to magnify trade returns

**25. What does 'market capitalization' represent?**

- A) The total debt of a company
- B) The total market value of a company's outstanding shares**
- C) The annual revenue generated by a company
- D) The amount of cash held by a company