Advanced Stock Market Fundamentals

Economics And Business Studies · Practice Test · 25 Questions

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