Chapter 37
The Stock Market and Crashes

Multiple Choice Questions

1. From 1982 until 2000, stock prices rose dramatically. As measured by the Dow Jones Industrial Average, stocks went from under _____ to above ______ during this period.
   a. 1000, 11000
   b. 200, 1400
   c. 400, 5000
   d. 10,000, 200,000

2. From 1982 until 2000, stock prices rose dramatically. As measured by the NASDAQ composite, stocks went from under _____ to above ______ during this period.
   a. 1000, 11000
   b. 200, 1400
   c. 400, 5000
   d. 10,000, 200,000

3. From 1982 until 2000, stock prices rose dramatically. As measured by the Standard and Poor's 500 composite, stocks went from under _____ to above ______ during this period.
   a. 1000, 11000
   b. 200, 1400
   c. 400, 5000
   d. 10,000, 200,000

4. The stock index that includes the stock prices of a disproportionate number of technology companies (sometimes referred to as "tech-heavy" or "tech-laden" is the
   a. Dow Jones Industrial Average
   b. Standard and Poor’s 500
   c. NASDAQ
   d. Russell 2000
5. Which of the following is considered by economists as a fundamental determinant of stock prices?
   a. Interest rates
   b. CEO desires
   c. Board of Directors mandates on stock prices
   d. Securities and Exchange Commission officers

6. Which of the following is by considered economists as a fundamental determinant of stock prices?
   a. Earnings projections
   b. CEO desires
   c. Board of Directors mandates on stock prices
   d. Securities and Exchange Commission officers

7. Fundamentally a stock price is the _______ future earnings per share.
   a. Sum of expected
   b. Present value of expected
   c. Future value of expected
   d. Present value of only known

8. If interest rates rise and all else is equal, the price of a stock will
   a. Fall
   b. Rise
   c. Remain unchanged
   d. Adjust to reflect a higher ratio of price to earnings

9. If expected earnings of a company are revised upward and all else is equal, the price of a stock will
   a. Fall
   b. Rise
   c. Remain unchanged
   d. Adjust to reflect a lower ratio of price to (current) earnings
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10. If the expected future price of a stock is revised upward and all else is equal, today's price of the stock
   a. Will fall
   **B.** Will rise
   c. Will remain unchanged
   d. Will adjust to reflect a lower ratio of price to earnings

11. If interest rates fall and all else is equal, the price of a stock will
   a. Fall
   **B.** Rise
   c. Remain unchanged
   d. Adjust to reflect a lower ratio of price to earnings

12. If the expected earnings of a company are revised downward and all else is equal, the price of a stock will
   **A.** Fall
   b. Rise
   c. Remain unchanged
   d. Adjust to reflect a higher ratio of price to (current) earnings

13. If the expected future price of a stock is revised downward and all else is equal, today's price of the stock
   **A.** Will fall
   b. Will rise
   c. Will remain unchanged
   d. Will adjust to reflect a higher ratio of price to earnings

14. An important factor in stock prices that is separate from interest rates and profit expectations is
   **A.** The expected price of the stock in the near future
   b. CEO desires
   c. Board of Directors mandates on stock prices
   d. Securities and Exchange Commission mandates on stock prices
15. When a company sells stock for the first time to raise money for a business expansion this is called a(n) 
A. IPO (Initial Public Offering)  
b. FTO (First Time Offering)  
c. PPO (Preferred Public Offering)  
d. FSS (First Sale of Stock)

16. An S-corporation is designed 
a. For large new incorporations  
b. To allow stock sales to other corporate entities  
c. To allow for unlimited numbers of shareholders  
D. For small businesses to incorporate

17. An important function of stock sales after the IPO is to 
a. Equalize profits across industries  
b. Equalize profits across firms within industries  
c. Equalize risk-unadjusted rates of return  
D. Equalize risk-adjusted rates of return

18. If a company is expected to earn $1 per share this year and 2% more per share each subsequent year, the stock price in an efficient market will reflect 
a. The $1 per share, but ignore the 2% annual growth  
b. Neither of these pieces of information  
c. The 2% annual growth but not the starting point of $1 per share  
D. Both of these pieces of information.

19. If a stock market is utilizing all of the available information on earnings projections, interest rates, risk, etc., economists refer to the market as 
a. Proper  
b. Attentive  
C. Efficient  
d. Fully engaged
20. In an efficient market, an average investor who is outside Wall Street
   a. Must be constantly vigilant by analyzing and adjusting their portfolio to get average returns
   b. Can not expect to get average returns
   C. Will get average returns in a well-diversified portfolio even without analyzing or managing it
   d. Will habitually exceed average returns

21. The NASDAQ collapse of the year 2000 finally bottomed out in October, 2002, after
   a. Losing 23% of its value in 31 months
   b. Its merger with the New York Stock Exchange
   c. Moving its headquarters to London
   D. Losing 78% of its value in 31 months

22. When stock markets crash because of changes in the expected future sale price of an asset rather than changes in fundamental stock price determinants, economists refer to the situation as
   a. God's will
   b. Just desserts
   c. A ghost
   D. A bubble

23. Economic bubbles are created because of inflated (and in the short-term self-fulfilling) expectations of
   a. Interest rates
   B. Future asset prices
   c. Overall economic growth
   d. Earnings

24. The creation and deflation of economic bubbles impacts the sale of homes, cars and other expensive goods because
   a. Higher stock prices make people feel poorer so they buy fewer of these things
   B. Higher stock prices make people feel richer so they buy more of these things
   c. Higher interest rates make people more able to borrow money to buy these things
   d. The creation of bubbles lowers the prices of these things and their deflation stimulates purchases
25. During the Asian Financial Crisis, stocks in
a. The US fell by 50%
b. Asia rose 150%
c. Europe fell by 50%
**D.** Asia fell by 50%

26. During 1999, the NASDAQ increased
a. 84 fold
**B.** 84%
c. 8%
d. 4%

27. During 2000, NASDAQ peaked above _____ but ended the year below ________.
a. 10,000; 1,000
b. 5,000; 1,000
**C.** 5,000; 2500
d. 100,000; 5,000

28. If stock prices are in-line with their fundamental determinants and profit expectations do not change, then a change in the interest rate by one percentage point from 10% to 11%
a. Will change the stock price by exactly ten percent regardless of the expected distribution of the earnings over time
b. Will change the stock price by less then ten percent regardless of the expected distribution of the earnings over time
c. Will change the stock price by more than ten percent regardless of the expected distribution of the earnings over time
**D.** Will change the stock price by more or less than ten percent depending on the expected distribution of the earnings over time
29. If stock prices are in-line with their fundamental determinants and interest rates do not change, then a change in the profit expectations by 20%
   a. Will change the stock price by exactly 20% regardless of the expected distribution of the earnings over time
   b. Will change the stock price by less then 20% regardless of the expected distribution of the earnings over time
   c. Will change the stock price by more than 20% regardless of the expected distribution of the earnings over time
   D. Will change the stock price by more or less than 20% depending on the expected distribution of the earnings over time

30. Economists view corporate bankruptcy as
   A. A necessary aspect of a capitalist economy
   b. A socialist intrusion into a capitalist economy
   c. A means by which the rich get richer
   d. A means by which the poor get poorer

31. Most cases of corporate bankruptcy are part of the Chapter _____ variety
   a. 7
   B. 11
   c. 13
   d. 15

32. Without some form of bankruptcy protection, it certainly would be in the general interest of all creditors as a group to let a company reorganize so that it could ultimately repay its debts,
   a. And it certainly would be in every individual creditor's interest as well
   B. It would be in the interest of each individual creditor to seek immediate payment
   c. It would be easier for companies to repay their debts
   d. It would be easier for creditors who most need their money to be repaid first
33. Enron's bankruptcy is much more troubling than K-Mart's or Global Crossing's because
   a. Enron was much bigger
   b. Enron had more employees
   c. Enron had more stockholders
   D. Enron's trouble resulted from corrupt accounting practices

34. The impact of accounting scandals of 2001 and 2002 was especially important because
   a. It increased investor uncertainty about corporate fundamentals
   b. The accounting industry had so many employees
   c. The major accounting companies both consult and audit their clients, leading to a conflict of interest
   D. A and C

35. The principal-agent problem exists when
   a. Owners of an asset and the managers of that asset are the same
   B. Owners of an asset and the managers of that asset are not the same
   c. Owners have an interest in making a profit
   d. Managers are dedicated to making owners a profit

36. The 2006-2007 recovery of stock prices from their 2000-2001 collapse was largely a reflection of
   a. The Democrat sweep of Congress
   b. The Enron scandals
   C. Increased earnings forecasts and low long-term interest rates
   d. Reduced earnings forecasts and high long-term interest rates

True / False Questions

37. Under the efficient market hypothesis, it is advisable to spend at least an hour a day altering your portfolio to take advantage of profit opportunities.
   FALSE