Session 22: Post Class tests

1. Dividends, at least for US companies, are often described as "sticky". Which of the following do we mean when we say that dividends are sticky?
    a. Companies are reluctant to pay dividends
    b. Companies are reluctant to change dividends per share
    c. Companies are reluctant to change dividend payout ratios
    d. Companies are reluctant to change dividend yield
    e. None of the above
2. In the last three decades, US companies have shifted away from paying dividends to stock buybacks. Which of the following offers the best explanation for why this may have happened?
    a. Dividends are taxed at much higher rates, relative to capital gains.
    b. The proportion of stock held by institutional investors has increased.
    c. Transactions costs for trading equity have decreased
    d. Companies feel much less secure or certain about future earnings
    e. Investors are more short term than they used to be.
3. Looking at history, which of the following best characterizes the relationship between dividends and earnings.
    a. Dividend increases tend to lead earnings increases, i.e., they happen before earnings increases
    b. Dividend increase contemporaneously with earnings
    c. Dividends increases lag earnings increases
4. The dividend payout ratio measures the proportion of net income paid out in dividends. A company that pays out more than its earnings as dividends has a payout ratio greater than 100%. Under which of the following scenarios might this occur?
    a. A firm that is shrinking its asset base (by selling businesses)
    b. A cyclical firm during a recession year
    c. A company paying a special dividend (a one time dividend)
    d. All of the above
    e. None of the above
5. Assume that you are looking at company that operates in a market where investors pay a 40% tax rate on dividends and only 20% in capital gains. The company's stock trades at $20/share today and has an annual dividend of $1/share. If tomorrow is the ex-dividend day, what would you expect the stock price to be at the end of the day?
    a. $19/share
    b. $19.25/share
    c. $20/share
    d. $20.75/share
    e. $21/share
    f. None of the above
6. Dividends are more certain that capital gains and are hence more valuable.
    a. True
    b. False