

# Business and Personal Finance © 2012

## Chapter 18: Stocks

### Check Your Answers: Section Assessment

#### Section 2

#### Review Key Concepts

1. Newspapers, the Internet, stock advisory services, corporate new publications.
2. Current yield is the annual dividend of an investment divided by the current market value. Total return includes the annual dividend and any increase or decrease in the original purchase price. Earnings per share are a corporation's net earnings divided by the number of outstanding shares of common stock. The price-earnings (PE) ratio is the price of one share of stock divided by the corporation's earnings per share over 12 months.
3. The fundamental theory assumes that a stock's real value is determined by looking at the company's future earnings. The technical theory is based on the idea that a stock's value is determined by forces in the stock market itself. The efficient market theory argues that stock prices are purely random.
4. Blue chip stocks are issued by strong, respected companies and are usually a safe investment. Income stocks, often issued by gas and electric companies, pay higher-than-average, predictable dividends. Growth stocks generally do not pay dividends, and are issued by a corporation whose potential earnings may be higher than the average earnings. Cyclical stocks have a market value that reflects the state of the economy. Defensive stocks remain stable during declines in the economy, and dividends continue to be paid. Large-cap stocks are from a corporation that has issued a large number of shares and has a large amount of capitalization. Small-cap stocks are issued by a company with a capitalization of \$500 million or less. Penny stocks, issued by new companies or companies whose sales are very unsteady, typically sell for less than \$1 a share, and are risky.

#### Higher Order Thinking

5. Answers will vary. For example, students who chose the fundamental theory may say it is the most concrete and predictable. Those who selected the technical theory may say it is the most sound.

#### 21st Century Skills

6. **Interact Effectively** Articles will vary depending on interview results, but should include information about the professional's day-to-day activities, skills and requirements, and education and training. Students may include details about testing, licenses, ongoing education, and background checks.

#### Mathematics

##### 7. Price-Earnings Ratio

Earnings per Share =  $\$1,250,000/120,000 = \$10.42$ ; Price-Earnings Ratio =  $\$56.50/\$10.42 = 5.42$