

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) On 3/3, I saw Matt Doud on ABC say that the “sequestration” (mandatory budget cuts which started 3/1 if Congress and President Obama did not reach an agreement on the budget and was put into law last year) had no impact on the stock market on Friday. Given what we learned in the class, should that have been a surprise? Explain your logic.

2A) (10 points) Suppose you bought a stock on 2012/1/2 for \$10,000. You sold it on 2013/1/2 for \$10,400. In the mean time you earned \$200 in dividends. What is the return you earned on the stock? Show all work.

2B) (10 points) The formula you used in Part A is only technically correct if you make one of two assumptions. State the most likely assumption and explain why it is important.

3) (15 points) What is meant by a “short sell”? Why would somebody want to do that?

4) (15 points) What is meant by a “limit buy order”? Why would you want to use that?

5) (10 points) On the bottom of this sheet is the definition of “stop orders” from my broker’s webpage. As you can see, they are basically the opposites of “limit orders.” Why would somebody want to have a “stop buy order”?

6) (15 points) What is meant by “pre-emptive rights on seasoned securities”? If stocks have this, then is that likely to increase or decrease the value of the stock? Explain your logic.

7) (10 points) Explain how underwriters make their profits.

Stop Order

A Stop Order is an order to Buy or Sell at the Market price once the security is at or has traded through a certain price (the Stop price).

Buy Stops are entered above the current Market price. If the security trades at or above your Stop price, your Stop Order becomes a Market Order and your broker will buy at the current Market price.

Sell Stops are entered below the current Market price. If the security trades at or below your Stop price, your Stop Order becomes a Market Order and it will sell at the current market price.