Question #1 of 66

Under the residual dividend model, firms financed with 100% equity would do all of the following EXCEPT:

A) borrow money to maintain the dividend payout schedule.

B) determine their optimal capital budgets.

C) pay dividends only if more earnings are available than needed to support the optimal capital budget.

Question #2 of 66

Dan Bridges, head of equity strategies for Paca Inc. a consultant to institutional investors makes the following statement:

Globally, the developed markets have seen a decline in proportion of companies paying cash dividends. Lately, we have also seen an increase in the proportion of companies engaging in share repurchases.

Bridges' statement is *most likely*:

A) Correct.

B) Incorrect as to companies engaging in share repurchases.

C) Incorrect as to dividend payout ratios.

Question #3 of 66

Faltys Asset Management (FAM) follows a dividend growth investment strategy. The Faltys Dividend Growth Fund only invests in companies that have a dividend yield greater than the S&P 500 and have the potential to increase that dividend each year at a rate that exceeds inflation. Warren Berlin, Director of Marketing for FAM has been developing a presentation book to present the fund to prospective clients. These prospective clients include retired individuals who want dividend income and trust companies who manage trust accounts which provide income to be distributed to beneficiaries. Which of the following dividend theories *best* describes the investment strategy and the marketing strategy of the fund?

	Investment Strategy	Marketing Strategy
A)	Signaling effect	Bird-in-the-hand
B)	Stable dividend	Clientele effect
C)	Bird-in-the-hand	Modigliani and Miller

Question #4 of 66

Global Development expects to earn $6 million next year. 40% of this amount, or $2.4 million, has been allocated for distribution to common shareholders. There are 2.4 million shares outstanding, and the market price is $30 a share. If Global uses the $2.4 million to repurchase shares at the current price of $30 per share, its share price after the repurchase will be *closest* to:

A) $31.00.

B) $29.00.

C) $30.00.

Question #5 of 66

In a world with taxes and brokerage costs:

A) Modigliani and Miller say that dividend policy is relevant.

B) Modigliani and Miller say that dividend policy is irrelevant.

C) dividend policy may be relevant.

Question #6 of 66

Pants R Us Inc.'s Board of Directors is considering repurchasing $30,000,000 worth of common stock. Pants R Us assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Pants R Us decides to borrow $30 million that it will use to repurchase shares. Pants R Us' Chief Investment Officer (CIO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 6.7%
- Planned buyback = 600,000 shares

Based on the information above, what will be Pants R Us' earnings per share (EPS) after the repurchase of its common stock?

A) $3.33.

B) $3.28.

C) $3.40.

Question #7 of 66

The current stock price of Westkirk is $50.00 per share. Book value of equity is $200 million and 10 million shares are outstanding. If Westkirk repurchases $25 million of their stock, the change in book value per share after the repurchase is *closest* to a(n):

A) decrease of $2.50.

B) decrease of $1.60.

C) increase of $1.10.

Question #8 of 66

Hikaru Takei is the portfolio manager for the Reliant Dividend Focused Fund. Takei wants to add a firm to his portfolio that follows a stable dividend policy. Takei is considering investing in one of three companies:

- Kirk Beauty Supplies maintains a constant dividend payout of 25 to 30%.
- Kelley Medical Devices increases its dividend each year in accordance with the company's long run growth rate of 4%.
- Barrett Satellite Systems has maintained a dividend of $2.00 per share over the last 6 years.

Which stock *best* meets Takei's criteria?

A) Kirk Beauty Supplies.

B) Barrett Satellite Systems.

C) Kelley Medical Devices.

Question #9 of 66

When a firm pays a stock dividend, the dividend is *most likely* to:

A) cause financial leverage ratios to increase.

B) cause liquidity ratios to decrease.

C) have no impact on financial leverage ratios and liquidity ratios.

Question #10 of 66

Which justification for repurchasing stock is the *least* valid?

A) Shareholders prefer capital gains to cash dividends.

B) A cash dividend increase, in response to short-term excess cash flows, may confuse investors.

C) Repurchases offer shareholders more choices than cash dividends.

Question #11 of 66

Which type of cash dividend is *most likely* to be declared by a cyclical firm during good times?

A) Stock dividend.

B) Special dividend.

C) Liquidating dividend.

Question #12 of 66

A periodic payment to shareholders in the form of additional shares of stock instead of cash is a:

A) stock repurchase

B) dividend reinvestment plan

C) stock dividend

Question #13 of 66

The Skubin Candy Company is a highly profitable and rapidly growing maker of chocolates and other confections. Skubin's management team is considering various dividend policies and is most concerned about the possibility of the dividend amount decreasing from one year to another and the negative reaction from investors that such a decrease may cause. Under which dividend policy would Skubin's dividend be *most likely* to decline in a given year?

A) Target payout ratio.

B) Longer-term residual dividend.

C) Residual dividend.

Question #14 of 66

Dividend payments are *most likely* to be associated with:

A) increased agency conflict between shareholders and managers.

B) increased agency conflict between bondholders and managers.

C) increased agency conflict between bondholders and shareholders.

Question #15 of 66

Dividend safety is *most likely* evidenced by:

A) Increase in dividend and FCFE coverage ratios

B) Increase in dividend coverage ratio but not by FCFE coverage ratio.

C) Increase in FCFE coverage ratio but not be dividend coverage ratio.

Question #16 of 66

The clientele effect predicts that investors with high marginal tax rates and low desire for current income will be attracted to companies whose dividend policies promote:

A) low reinvestment of earnings.

B) low dividends levels.

C) low levels of share repurchase.

Question #17 of 66

Laura's Chocolates Inc. (LC) is a maker of nut-based toffees. LC is considering a cash dividend, but is concerned about the "double taxation" effect on their shareholders. If the corporate tax rate is 35%, and the tax on dividends is 20%, what is the effective tax rate on a dollar of corporate earnings?

A) 42%.

B) 48%.

C) 55%.

Peter Lung is the CFO for Moore Industries. Lung is new to the company and has been tasked by the company's board of directors to review the company's dividend policy. The reason for this request is that two board members have suggested changes be made to the dividend policy, but their suggested changes are in opposite directions.

One of the board members, Al Gormus, has suggested that the firm increase dividends so that the dividend payout ratio will be higher, but Harold Lee has suggested that the firm decrease dividends. The board has asked Lung to identify the effects of these suggested changes on the company's stock.

To investigate the firm's ability to pay dividends, Lung decides to look at the dividend coverage ratios based on earnings and cash flow. Lung has gathered the financial data below for the most recent two years. Additionally, he notes that the stock price was $23.20 in 20X7 and $20.08 in 20X6. The shares outstanding were 1.45 billion in 20X7 and 1.50 billion in 20X6.

(in $millions)	20X7	20X6
Net income	1,783	2,195
Cash flow from operations	4,054	4,122
Capital expenditures	1,799	3,266
Net borrowing	(1,034)	(615)
Dividends paid	1,691	1,585
Stock repurchases	(176)	166

After analyzing the dividend coverage ratios, Lung begins work on his presentation to the board regarding the options for paying dividends. One of the options that he wants the board to consider is a residual dividend policy. Lung has gathered the information below regarding the firm's 20X8 capital budgeting projects. Additionally, he has determined that the target capital structure is 60% equity and 40% debt. The after-tax cost of debt is 6.5%, and the cost of equity is estimated to be 12%.

Project	Size of project ($m)	IRR
Project 1	$500	12.0%
Project 2	$700	11.0%
Project 3	$300	10.0%
Project 4	$1,000	9.0%
Project 5	$600	8.0%

Lung also believes that the firm should use share repurchases to a greater extent. In his presentation he makes the following statements regarding share repurchases.

Statement 1:	A share repurchase strategy can be combined with a residual dividend policy to maintain a low stable dividend. In years with more profitable projects, the firm's repurchases would be higher, while in years with fewer profitable projects, repurchases would be lower.
Statement 2:	Assuming that share repurchases are financed with debt, such repurchases will increase the company's EPS.

Question #18 of 66

Based on the bird-in-hand argument for dividend policy, Gormus' suggested dividend change will *most likely* result in:

A) an increase in the stock price.

B) a decrease in the stock price.

C) no change in the stock price.

Question #19 of 66

If the company implements Lee's suggested dividend change, assuming that the change was not anticipated by the market, the signal that this change would send to investors would *most likely* be:

A) ambiguous and indiscernible to investors.

B) that the company's business prospects are weak.

C) that the company's business prospects are strong.

Question #20 of 66

Based on the information collected by Lung, the 20X6 dividend payout ratio is *closest* to:

A) 0.1.

B) 0.7.

C) 1.4.

Question #21 of 66

Based on the information collected by Lung, the FCFE coverage ratio for 20X7 is *closest* to:

A) 1.4.

B) 0.7.

C) 0.8.

Question #22 of 66

If the firm's net income in 20X8 is $1,500 and the firm follows a residual dividend policy, the dividend coverage ratio would be:

A) 2.50.

B) undefined.

C) 1.67.

Question #23 of 66

Are Lung's statements regarding share repurchases CORRECT?

A) No, both statements are incorrect.

B) No, only one of the statements is correct.

C) Yes, both statements are correct.

Question #24 of 66

Armsware Industries' board is debating whether to issue a cash dividend or a stock dividend. Director Jones states, "We should issue a cash dividend because our liquidity ratios will improve and the credit rating agencies will love it." Director Beane states, "A stock dividend will improve our leverage ratios by increasing contributed capital, which is what the rating agencies are looking for." Are the statements by Jones and Beane accurate?

	Jones	Beane
A)	No	No
B)	Yes	Yes
C)	Yes	No

Question #25 of 66

Grommetco produces plastic insulators for the electrical appliance industry. Excerpts from Grommetco's financial results for 2010 are as follows:

Net Income (earnings)	$10
Free Cash Flow to Equity	$8
Dividends Paid	$1
Stock Repurchases	$3

Which of the following statements is *most* accurate? Grommetco's:

A) dividend coverage ratio is 2.5.

B) dividend payout ratio is 0.4.

C) FCFE coverage ratio is 2.0.

Question #26 of 66

Stock splits:

A) do not in and of themselves affect firm value.

B) are less common than stock dividends.

C) increase firm value.

Question #27 of 66

Which of the following is *most likely* to prompt a company to increase dividend payments? A company's management foresees:

A) continued volatility of the company's earnings.

B) an immediate lack of profitable investment opportunities.

C) reduced availability of credit in the market.

Question #28 of 66

According to the "clientele effect" of dividend policy, which of the following groups is *most likely* to be attracted to low dividend payouts?

A) High-income individual investors.

B) Corporations exempt from taxes on 85% of dividend income.

C) Tax exempt pension funds.

Question #29 of 66

Paying a cash dividend is *most likely* to result in:

A) the same impact on liquidity and leverage ratios as a stock dividend.

B) an increase in liquidity ratios.

C) an increase in financial leverage ratios.

Question #30 of 66

Which of the following is *least likely* a method by which firms repurchase their shares?

A) Exercise a call provision.

B) Tender offer.

C) Direct negotiation.

Question #31 of 66

Pearl City Breweries has 8 million shares outstanding that are currently trading at $34 per share. The company is choosing whether to distribute $22 million as dividends or to use the same amount to repurchase its shares. Ignoring tax effects, what will be the amount of total wealth from owning one share of Pearl City Breweries under each of these alternatives?

	Cash dividend	Share repurchase
A)	$34.00	$34.00
B)	$31.25	$37.00
C)	$31.25	$34.00

Question #32 of 66

Compared to a Dutch auction tender offer, when a firm uses a fixed price tender offer it is *more likely* that the fixed price tender offer will:

A) result in a lower buyback price.

B) require a greater amount of time to complete.

C) send a positive signal to investors.

Question #33 of 66

The share price of Solar Automotive Industries is $50 per share. It has a book value of $500 million and 50 million shares outstanding. What is the book value per share (BVPS) after a share repurchase of $10 million?

A) $10.12.

B) $10.00.

C) $9.84.

Question #34 of 66

The share price of Winnipeg Auto Unlimited is $5 per share. There are 50 million shares outstanding, and Winnipeg has a book value of $900 million. What is the book value per share (BVPS) after the share repurchase of $10 million?

A) $14.76.

B) $18.54.

C) $21.24.

Question #35 of 66

Sinclair Construction Company's Board of Directors is considering repurchasing $30,000,000 worth of common stock. Sinclair assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Sinclair decides to borrow $30 million that it will use to repurchase shares. Sinclair's Chief Executive Officer (CEO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 8.0%
- Planned buyback = 600,000 shares

Based on the information above, Sinclair's earnings per share (EPS) after the repurchase of its common stock will be *closest* to:

A) $3.18.

B) $3.23.

C) $3.32.

Question #36 of 66

Francis Investment Inc's Board of Directors is considering repurchasing $30,000,000 worth of common stock. Francis assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Francis decides to borrow $30 million that it will use to repurchase shares. Francis' Chief Financial Officer (CFO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 4.0%
- Planned buyback = 600,000 shares

Based on the information above, after the repurchase of its common stock, Francis' EPS will be *closest* to:

A) $3.39.

B) $3.41.

C) $3.36.

Question #37 of 66

Tecnolotronix is an equipment manufacturer in a volatile, cyclical industry that employs a long-term residual dividend approach. A surprise increase in quarterly profits would be *most likely* to have which of the following immediate effects on the actual measured payout ratio?

A) A decrease in the ratio.

B) An increase in the ratio.

C) No change in the ratio.

Question #38 of 66

Laura's Chocolates, Inc. (LC), is a maker of nut-based toffees. LC is considering a share repurchase and prefers the "tender offer" method. Which of the following is also known as a "tender offer"?

A) Repurchasing by direct negotiation.

B) Buying a fixed number of shares at a fixed price.

C) Buying in the open market.

Question #39 of 66

In a recent lecture at a seminar titled "Dividends – Do They Really Matter?", Matthew Janowski, CFA, made the following two statements regarding the information content in dividend policy changes across countries:

Statement 1:	In the U.S., investors infer that small changes in dividends do not send a major signal about a company's future prospects to existing and potential shareholders.
Statement 2:	In Asian countries such as Japan, investors are unlikely to assume that even a large change in dividend policy signals anything about a company's future prospect.

With respect to Janowski's statements:

A) only one is correct.

B) both are incorrect.

C) both are correct.

Question #40 of 66

Which of the following is *least likely* to discourage a company from making high dividend payouts? The company's:

A) shareholders are primarily tax-exempt institutions.

B) bondholders are protected by strong debt covenants.

C) flotation costs are high.

Question #41 of 66

International Pulp, a Swiss-based paper company, has annual pretax earnings (in Swiss francs) of SF 600. The corporate tax rate on retained earnings is 55%, and the corporate tax rate that applies to earnings paid out as dividends is 30%. Furthermore, International Pulp pays out 30% of its earnings as dividends, and the individual tax rate that applies to dividends is 40%.

What is the effective tax rate on corporate earnings paid out as dividends?

A) 48%.

B) 58%.

C) 70%.

Question #42 of 66

What is the impact on shareholder wealth of a share repurchase versus cash dividend of equal amount when the tax treatment of the two alternatives is the same?

A) A share repurchase is equivalent to a cash dividend of an equal amount, so total shareholder wealth will be the same.

B) A share repurchase will sometimes lead to higher total shareholder wealth than a cash dividend of an equal amount.

C) A share repurchase will always lead to higher total shareholder wealth than a cash dividend of an equal amount.

Question #43 of 66

If Modigliani and Miller's dividend irrelevancy theory is correct, what is the impact on a firm's cost of capital and stockholder wealth if its dividend payout increases?

Cost of Capital	Stockholder wealth

A)	None	A decrease
B)	None	None
C)	An increase	A decrease

Question #44 of 66

When a firm pays a cash dividend, the dividend payment is *most likely* to:

A) have no impact on financial leverage ratios and liquidity ratios.

B) cause liquidity ratios to increase.

C) cause financial leverage ratios to increase.

Question #45 of 66

According to Modigliani and Miller's dividend irrelevancy theory, an investor in a firm that does not pay a dividend can still earn a "dividend" on that company by:

A) slowly liquidating the fixed income portion of the investor’s portfolio.

B) writing covered call options on the underlying stock.

C) selling a portion of the company's stock each year.

Question #46 of 66

David Drakar and Leslie O'Rourke both own 100 shares of stock in a German corporation that makes €1.00 per share in pre-tax income. The corporation pays out all of its income as dividends. Drakar is in the 30% individual tax bracket while O'Rourke is in the 40% individual tax bracket. The tax rate applicable to the corporation is 30%. Drakar and O'Rourke live in the United Kingdom, which uses an imputation tax system for corporate dividends. What is the effective tax rate on the dividend for each shareholder, assuming no effects from the exchange rate?

	Drakar	O'Rourke
A)	40%	48%
B)	38%	44%
C)	30%	40%

Question #47 of 66

Jim Davis and Thurgood Owen, two equity analysts at Ferguson Capital Management, were reviewing the financial statements of Peregrine Foodstuffs Ltd. Davis and Owen noticed that Peregrine has been repurchasing its common shares in the market over the past three years. Owen thought this was an important issue to look into in greater detail. Upon completion of his review, Owen made the following two statements:

Statement 1	Peregrine has bought back shares in the open market during its repurchase program. This method of repurchase gave the company the flexibility to choose the timing of the transaction.
Statement 2	Peregrine plans to buy back shares by making tender offers during the coming year. By making tender offers, the company will be able to repurchase shares at a discount to the prevailing market price.

With respect to Owen's statements:

A) only one is correct.

B) both are incorrect.

C) both are correct.

Question #48 of 66

A company is *most likely* to use a Dutch auction when repurchasing shares:

A) by direct negotiation.

B) with a tender offer.

C) in the open market.

Question #49 of 66

Tina Donaldson is the Chief Financial Officer for Outback Supply Corporation (OSC). OSC is considering revising its dividend payout policy and Donaldson has been asked by the board of directors to suggest alternatives for the board to consider. Donaldson prepares a memo listing the benefits of a residual dividend model. The memo includes three key points:

Point 1:	A residual dividend policy is simple for the company to use and easy to implement.
Point 2:	The residual dividend approach allows management to determine investment opportunities without having to take dividends into consideration.
Point 3:	Because the firm is maximizing its positive net present value opportunities with a residual dividend model, investors are likely to perceive the firm as having less risk.

Which of Donaldson's points describing advantages of the residual dividend approach are *most* accurate?

A) Points 1, 2, and 3.

B) Points 1 and 2 only.

C) Point 2 only.

Question #50 of 66

The following financial data relates to the Carmichael Beverage Company for 2005:

- The target capital structure is 65% equity and 35% debt.
- After-tax cost of debt is 7%.
- Cost of retained earnings is estimated to be 12%.
- Cost of equity is estimated to be 13.5% if the company issues new common stock.
- Net income is $4,000,000.

Carmichael Beverage Company is considering the following investment projects:

Project A: $2,500,000 value; IRR of 11.50%

Project B: $1,000,000 value; IRR of 13.00%

Project C: $2,000,000 value; IRR of 9.50%

Project D: $500,000 value; IRR of 10.50%

Project E: $1,500,000 value; IRR of 8.00%

If the company follows a residual dividend policy, its payout ratio will be *closest* to:

A) 12%.

B) 35%.

C) 0%.

Question #51 of 66

A company is all equity financed, has a capital budget of $2.0 million and earnings of $1.8 million. If the company follows a residual dividend policy, the amount it will pay out in dividends is *closest* to:

A) $0.1 million.

B) $0.00

C) $0.2 million.

Question #52 of 66

Which of the following statements about differences observed in payout trends in US and Europe is *most* accurate?

A) The percentage of companies making stock repurchases has been trending downwards both in the US and Europe.

B) A higher proportion of US companies pay dividends as compared to their European counterparts.

C) A lower proportion of US companies pay dividends as compared to their European counterparts.

Question #53 of 66

Financial managers utilize stock splits and stock dividends because they perceive that:

A) investors will double the share price if there is a 20% stock dividend.

B) an optimal trading range exists.

C) brokerage fees paid by shareholders will be reduced.

Question #54 of 66

Belden Engineering Corporation (BEC) is considering a share repurchase program. David Gudzanski, the firm's executive vice president prepares a memo to the board of directors detailing reasons why a share repurchase would be favorable at this time. Reasons listed in the memo are as follows:

Reason 1:	The resulting capital structure from the share repurchase would be more favorable for investors in BEC's bonds.
Reason 2:	BEC's stock is currently selling at $37 in the marketplace. Our discounted cash flow analysis values the company at $48 per share.
Reason 3:	The share repurchase could be used to offset dilution caused by the exercise of employee stock options.
Reason 4:	BEC can use the repurchase to send a signal to investors that management has a positive future outlook for the company.
Reason 5:	The share repurchase could be used to implement a residual dividend policy while diminishing the potential increase in perceived risk that such a policy would cause for investors.

Which of Gudzanki's reasons in favor of the share repurchase is *most* accurate?

A) Reasons 1 and 3 only.

B) Reasons 2, 3, 4, and 5.

C) Reasons 2 and 3 only.

Question #55 of 66

Which of the following dividend policies would a firm with long-term excess cash flows *most likely* use? A share repurchase program:

A) in conjunction with a residual dividend model.

B) and a growing dividend model.

C) and no payout of dividends.

Question #56 of 66

The following information is from the 10-k of Laura's Chocolates, Inc.(LC), a maker of nut-based toffees.

Cash	25,000,000
Share price	40.00
Shares outstanding (prior to transaction)	20,000,000

LC decides to spend $20 million repurchasing common stock. What is the value of a share of stock after the share repurchase?

A) 45.00.

B) 40.00.

C) 35.00.

Question #57 of 66

Which of the following statements regarding dividend policies is CORRECT?

A) Companies using a longer-term residual dividend policy pay a steady dividend based on long-term forecast of their capital budget.

B) Companies following a dividend stability policy seek to pay a constant dollar amount per share over a long period of time.

C) A constant payout ratio approach is likely to result in a lower risk premium assigned to a company by investors.

Question #58 of 66

Which of the following statements about dividend policy and capital structure is *most* accurate?

A) A person who believes in the clientele effect and a proponent of the "bird-in-hand" theory would have similar views on dividend payout policy.

B) Monte Carlo simulation is used to estimate market risks; scenario analysis measures stand-alone risk.

C) Investors view a stock repurchase as a positive signal and a stock issue as a negative signal.

Question #59 of 66

Which of the following statements about a stock repurchase is *least* accurate?

A) A stock repurchase occurs when a large block of stock is removed from the marketplace.

B) Management can distribute cash to shareholders at a favorable after-tax rate.

C) Disgruntled stockholders are forced to sell their shares, improving management's position.

Question #60 of 66

Last year, Calfee Multimedia had earnings of $4.00 per share and paid a dividend of $0.30. In the current year, the company expects to earn $5.20 per share. Calfee has a 30% target payout ratio. If the expected dividend for this year is $0.51, what time period is Calfee *most likely* using in order to bring its dividend up to the target payout?

A) 4 years.

B) 5 years.

C) 6 years.

Question #61 of 66

Which of the following would be *least likely* to prompt a decline in a company's overall payout ratio?

A) A permanent decrease in company profitability.

B) A decrease in the capital gains tax rate.

C) An increase in interest rates.

Question #62 of 66

Which of the following statements about a stock repurchase is *least* accurate?

A) Disgruntled stockholders are forced to sell their shares, improving management's position.

B) A stock repurchase occurs when a large block of stock is removed from the marketplace.

C) Management can distribute cash to shareholders at a favorable after-tax rate.

Question #63 of 66

Stargell Industries follows a strict residual dividend policy. The company has a capital budget of \$3,000,000. It has a target capital structure that consists of 30% debt and 70% equity. The company forecasts that its net income will be \$3,500,000. What will be the company's expected dividend payout ratio this year?

A) 40%.

B) 35%.

C) 30%.

Question #64 of 66

Which of the following is *most likely* to be a symptom of a company that is able to sustain its cash dividend?

A) A high dividend payout ratio compared to the industry average.

B) Issuing new debt to fund projects and cover capital expenditures.

C) A low dividend yield compared to the company's historic average.

Question #65 of 66

At a recent conference, "Dividends – Are They Increasing?", several lecturers were discussing the signaling effect and their opinions on how changes in a company's dividend policy are often viewed by investors. Linda Travis, an equity analyst at Girthmore Capital Management and one of the guest lecturers at the conference, made the following observations:

Observation 1:	A dividend initiation is always viewed as a positive signal by investors. It is an indication that the company has so much cash at its disposal that it can afford to pay it out to shareholders.
Observation 2:	A dividend decrease is typically a positive signal by a company's management to its shareholders. It indicates that management has a variety of positive NPV projects in its capital budget and would like to finance as many of them as possible with retained earnings.

With respect to Travis' observations:

A) both are incorrect.

B) both are correct.

C) only one is correct.

Question #66 of 66

The share prices of Solar Automotive Industries and Winnipeg Auto Unlimited are both $50 per share, and each company has 50 million shares outstanding. On September 30, both companies announced a $10 million stock buyback. Solar has a book value of $500 million, while Winnipeg has a book value of $900 million. How much did the book value per share (BVPS) of each company increase or decrease after the share repurchase?

	Solar Automotive Industries	Winnipeg Auto Unlimited
A)	Decrease by $0.16	Decrease by $0.13
B)	Decrease by $0.13	Decrease by $0.13
C)	Increase by $0.13	Increase by $0.16