

### Question 1

Which of the following statements about dividend policies is correct?



Correct

Answer:



The clientele effect suggests that companies should follow a stable dividend policy.

### ↓ Question 2

If a firm adheres strictly to the residual dividend policy, the issuance of new common stock would suggest that



Correct Answer: 


no dividends were paid during the year.

### ↓ Question 3



Which of the following statements is correct?



Answer

Correct   
Answer:

If a firm repurchases some of its stock in the open market, then shareholders who sell their stock for more than they paid for it will be subject to capital gains taxes.

#### ↓ Question 4

Which of the following statements is CORRECT?

 Correct   
Answer:

If a firm's stock price is quite high relative to most stocks—say \$500 per share—then it can declare a stock split of say 10-for-1 so as to bring the price down to something close to \$50. Moreover, if the price is relatively low—say \$2 per share—then it can declare a “reverse split” of say 1-for-25 so as to bring the price up to somewhere around \$50 per share.

#### ↓ Question 5

Which of the following statements is correct?

Correct



Answer:

Stock repurchases make the most sense at times when a company believes its stock is undervalued.

#### ↑ Question 6

Which of the following should not influence a firm's dividend policy decision?

Correct



Answer:

The fact that much of the firm's equipment has been leased rather than bought and owned.

#### ↑ Question 7

If a firm adheres strictly to the residual dividend policy, then if its optimal capital budget requires the use of all earnings for a given year (along with new debt according to the optimal debt/total assets ratio), then the firm should pay

Correct Answer: 

no dividends to common stockholders.

#### ↑ Question 8