Stock & Dividends

Directions:
Answer the following questions.

1. Define par value.
   Par value is the lowest price for which a share of stock can be sold.

2. Paige purchased 200 shares of stock at $.50 par value. How much money did Paige spend?
   Paige spent $100.

3. Complete the *Conversion Ratio* for Convertible Bonds scenario.
   $1,000 Convertible Bonds @ $40 per share
   Every bond with a par value of <u>$1,000</u> can be exchanged for <u>25</u> shares of common stock.

4. Define dividends.
   Dividends are payouts which send a clear message about future prospects and the performance of a business.

5. Use the stability dividend policy to calculate the dividend in the following scenario. Barb's Burgers earned $1,000,000 for the year (with quarterly earnings of $300,000, $200,000, $100,000 and $400,000). Barb's uses the stability policy and pays 5% of yearly earnings. How much does Barb's Burgers pay quarterly?
   Barb's Burgers pays out $50,000 quarterly.

6. Explain a "Dividend Reinvestment Plan".
   A Dividend Reinvestment Plan is offered by a corporation which allows investors to reinvest their cash dividends by purchasing additional shares or fractional shares on the dividend payment date rather than keeping the cash dividend as cash. This can enhance the market appeal of a firm's shares.

7. Explain the effect of a firm's dividend decisions on external financing requirements.
   Dividends represent a source of cash flow to stock-holders. The amount of dividends paid can significantly affect a corporation's external financing requirements. If a firm needs financing, the larger the cash dividend paid, the greater amount of financing that must be raised through borrowing or the sale of common or preferred stock.