

Chapter 4

Basics of Personal Financial Management



Section 4

Stock Trading as an Investment

1. Which of the following are factors affecting share prices?
 - (1) general economic conditions
 - (2) political stability
 - (3) dividend policies
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Which of the following is an internal factor affecting share prices?
 - A. interest rate
 - B. industry prospects
 - C. speculation
 - D. company performance

3. Which of the following will most likely boost share prices?
 - A. The interest rate of borrowing increases.
 - B. The political situation is unstable.
 - C. The company earns a huge profit for the year.
 - D. The company changes its senior management officials.

4. Which of the following is the impact of speculation on share prices?
 - A. It increases share prices only.
 - B. It decreases share prices only.
 - C. It causes fluctuations in share prices.
 - D. It has no effect on share prices.

5. A _____ company performance _____ share prices.
 - A. good increases
 - B. good leads to no change in
 - C. bad increases
 - D. bad leads to no change in

6. Which of the following can decrease a company's share prices?
- (1) Its market share is decreasing.
 - (2) It launches quality products.
 - (3) Its sales volume is decreasing.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. The share prices of bank corporations decreased immediately after a rise in the interest rate of borrowing. Which of the following can be the reason(s) for this?
- (1) The industry prospects would worsen.
 - (2) Hong Kong dollar would appreciate.
 - (3) The general economic condition had been deteriorating for a long time.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
8. Assume that other factors are constant, which of the following would likely boost share prices of firms in the information technology industry?
- (1) a drop in the general income level of the population
 - (2) introduction of subsidies for newly established companies in the industry
 - (3) better economic growth
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

9. The Hang Seng Index (HSI) level on three days is shown in the following table.

Date	1 April 20X7	5 April 20X7	7 April 20X7
HSI (Closing)	18 266	18 772	18 921

Which of the following is/are the conclusion(s) we can draw?

- (1) The share prices of all listed companies rise.
 - (2) The performance of the Hong Kong stock market has generally improved.
 - (3) Many listed companies earned high profits.
- A. (1) only
 B. (2) only
 C. (1) and (3) only
 D. (2) and (3) only
10. Assume that other factors are constant, which of the following is the reason that will most likely make share prices decrease?
- A. good industry prospects
 B. uncertain macro-economic performance in the future
 C. appreciation of the country's currency
 D. an expectation of a cut in profits tax rate
11. Assuming other factors being constant, which of the following are the reasons that will lead to a rise in share prices in general?
- (1) a fall in fixed deposit interest rates
 - (2) an increase in the stamp duty
 - (3) a decrease in the income tax rate
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
12. Which of the following is/are the correct description(s) about the Hang Seng Index (HSI)?
- (1) It reflects the performance of the global stock market.
 - (2) It shows the stock price movements of major market sectors.
 - (3) It is useful for corporations, but not individual investors.
- A. (1) only
 B. (2) only
 C. (1) and (3) only
 D. (2) and (3) only

13. Which of the following are the functions of the Hang Seng Index (HSI)?
- (1) It reflects the profits of the constituent companies.
 - (2) It helps investors and investment agents evaluate and manage investment choices.
 - (3) It indicates the trend of price changes of shares traded in the Hong Kong stock market.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
14. Which of the following statements about the Hang Seng Index (HSI) are correct?
- (1) It helps predict the economy of Hong Kong.
 - (2) The number of constituent companies in the index is 50 currently.
 - (3) A constituent company needs to be a representative in the sector and have satisfactory performance.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
15. Which of the following is **NOT** a financial requirement for listing on the Main Board?
- A. profit attributable to shareholders
 - B. cash flow
 - C. market capitalisation
 - D. operating history and management

Based on the following information, answer Questions 16 to 17.

The following table shows the requirements for enterprises to be listed on two platforms of stock trading in Hong Kong.

	Platform A	Platform B
Trading record period	at least two full financial years	at least three financial years
Management continuity	substantially the same management throughout two full financial years	at least the three preceding financial years
Ownership continuity and control	the full financial year immediately preceding the issue of the listing documents	at least the most recent audited financial year

16. Which of the following statements are correct?

- (1) Platform A is the Growth Enterprise Market while platform B is the Main Board.
 - (2) Investing in listed companies in platform B is less risky.
 - (3) The number of listed companies in platform A is smaller.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

17. Which of the following statements are correct?

- (1) Main Board listed companies should have a good reputation and company performance.
 - (2) GEM listed companies are enterprises that usually have good business ideas and growth potential but do not fulfil the profitability requirements of Main Board.
 - (3) Companies cannot benefit from being constituent companies of HSI.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)