

Chapter 9

Stocks and Their Valuation

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify some of the more important rights that come with stock ownership and define the following terms: proxy, proxy fight, takeover, and preemptive right.
- Briefly explain why classified stock might be used by a corporation and what founders' shares are.
- Differentiate between closely held and publicly owned corporations and list the three distinct types of stock market transactions.
- Determine the value of a share of common stock where: (1) dividends are expected to grow at some constant rate, (2) dividends are expected to remain constant, and (3) dividends are expected to grow at some supernormal, or nonconstant, growth rate.
- Calculate the expected rate of return on a constant growth stock.
- Apply the total company (corporate value) model to value a firm in situations where the firm does not pay dividends or is privately held.
- Explain why a stock's intrinsic value might differ between the total company model and the dividend growth model.
- Explain the following terms: equilibrium, marginal investor, and Efficient Markets Hypothesis (EMH); distinguish among the three levels of market efficiency; and briefly explain the implications of the EMH on financial decisions.
- Read and understand the stock market page given in the daily newspaper.
- Explain the reasons for investing in international stocks and identify the "bets" an investor is making when he does invest overseas.
- Define preferred stock, determine the value of a share of preferred stock, or given its value, calculate its expected return.