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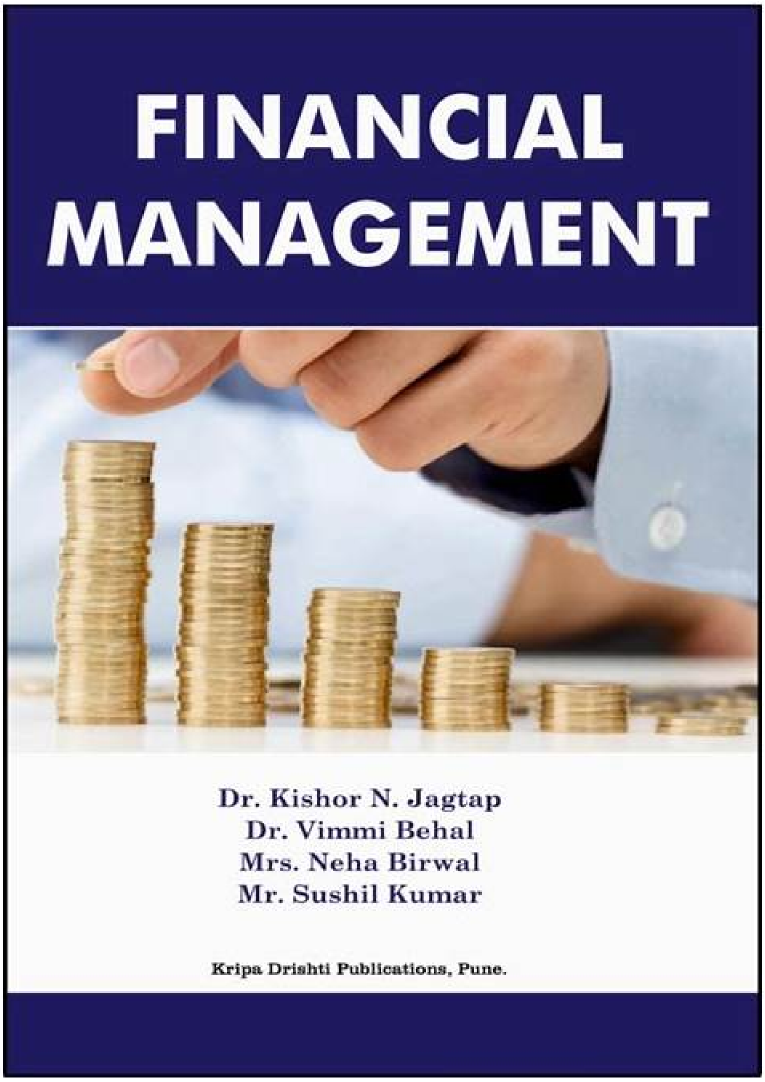

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WGU Financial Management VBC1 Sample Questions (Q40-Q45):

NEW QUESTION # 40
What is the bid-ask spread?

- A. The current market price of a stock less its initial public offering listing price
- B. The range between the highest and lowest stock prices in a day
- C. The difference between the price at which a specialist buys and sells a stock
- D. The commission charged by brokers for each transaction

Answer: C

Explanation:
The bid-ask spread is a fundamental concept in capital markets that reflects market liquidity and transaction costs. Thebid priceis the highest price a buyer (or market maker/specialist) is willing to pay for a security, while theask priceis the lowest price at which a seller is willing to sell. The difference between these two prices is the bid-ask spread. From a financial management perspective, the spread compensates market makers for providing liquidity, bearing inventory risk, and facilitating continuous trading. A narrow bid-ask spread generally indicates a highly liquid security with strong trading volume and low transaction costs, while a wide spread suggests lower liquidity, higher risk, or limited information availability. Investors effectively pay the spread when buying or selling securities, making it an implicit cost of trading. This concept is critical when evaluating market efficiency, trading strategies, and execution costs, especially for large institutional trades. Option D correctly defines the bid-ask spread as the difference between buying and selling prices quoted by specialists or dealers.

NEW QUESTION # 41
Which requirement does the Sarbanes-Oxley Act (SOX) impose on company executives?

- A. Assume responsibility for the company's debts
- B. Divest all personal company shares
- C. Certify the accuracy of financial information
- D. Hold an accounting certification

Answer: C

Explanation:
Under the Sarbanes-Oxley Act, senior executives-specifically the CEO and CFO-are required to certify that the company's financial statements fairly present the firm's financial condition and results of operations. This requirement increases executive accountability and ensures that financial reporting integrity is taken seriously at the highest level of management. False certification can result in severe civil and criminal penalties. Financial management texts emphasize that this provision aligns executive incentives with shareholder interests by making leaders directly responsible for financial transparency and accuracy. Option C correctly states this executive requirement.

NEW QUESTION # 42
A stock has a dividend per share of $5 and is expected to grow at a constant rate of 3% indefinitely. The required rate of return is 9%.
What is the value of the stock?

- A. $100.50
- B. $171.67
- C. $57.22
- D. $85.83

Answer: D

Explanation:

This question applies the Gordon growth (constant growth dividend discount) model, which values a stock as the present value of an infinite stream of dividends growing at a constant rate. The model assumes that dividends grow steadily and that the required rate of return exceeds the growth rate, ensuring a finite value. The formula is:
Stock Value = D# ÷ (r # g),
where D# is the dividend expected next year, r is the required rate of return, and g is the growth rate. If the current dividend is $5, the next dividend equals $5 × (1 + 0.03) = $5.15. Substituting into the formula gives:
$5.15 ÷ (0.09 # 0.03) = $5.15 ÷ 0.06 = $85.83.
This valuation approach is commonly used for mature firms with stable dividend policies and predictable growth. Financial managers and analysts rely on this model to estimate intrinsic stock value and assess whether a stock is overvalued or undervalued relative to its market price.

NEW QUESTION # 43
What is the dividend yield of a stock that pays annual dividends of $4 per share and has a current market price of $80?

- A. 5%
- B. 2.5%
- C. 10%
- D. 20%

Answer: A

Explanation:
Dividend yield measures the cash return an investor receives relative to the stock's current market price. It is calculated as Annual Dividend ÷ Market Price per Share. In this case, the dividend yield is
$4 ÷ $80 = 0.05, or 5%. Dividend yield is a key valuation metric, particularly for income-oriented investors, as it indicates the immediate cash return from holding the stock, excluding capital gains.
Financial managers monitor dividend yield to understand how dividend policy affects investor appeal and market valuation. Option B correctly reflects this calculation and interpretation.

NEW QUESTION # 44
A company has just increased its dividend payout ratio.
What effect will this have on the company's sustainable growth rate?

- A. The sustainable growth rate will either increase or decrease depending on the result of the change in dividend payouts on the plowback ratio.
- B. The sustainable growth rate will increase.
- C. The sustainable growth rate will remain the same because the increase in the dividend payout ratio will be offset by a decrease in return on equity.
- D. The sustainable growth rate will decrease.

Answer: D

Explanation:
The sustainable growth rate (SGR) represents the maximum rate at which a firm can grow its sales, assets, and earnings without raising new external equity. It is calculated as ROE × retention ratio, where the retention ratio equals one minus the dividend payout ratio. When a firm increases its dividend payout ratio, it retains less earnings for reinvestment, thereby reducing internally generated equity growth. Unless return on equity increases enough to offset this reduction-which is not assumed here-the sustainable growth rate will decline. Financial management theory emphasizes the trade-off between paying dividends and reinvesting earnings to support future growth. Option C correctly reflects this fundamental relationship between dividend policy and sustainable growth.

NEW QUESTION # 45
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