Tutorial 9

1. Given the information provided by Yahoo! Finance's on May 16, 2019 and reported below,

   a) Indicate which of the three stocks would you like to buy if you have rather different predictions from the analysts of Yahoo! Finance and you would expect to be able to sell the stocks in one year for the following prices $175 IBM, $164 Visa, $138 American Express under the assumption that you require a 15% return.

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Visa Inc. (V)
NYSE - Nasdaq Real Time Price. Currency in USD

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165.24 +2.70 (+1.66 %)
As of 11:00AM EDT. Market open.

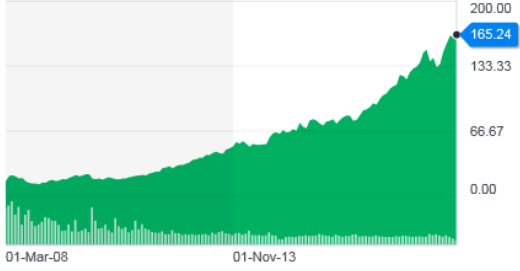Buy   Sell

| Summary | Chart | Conversations | Statistics | Historical Data | Profile | Financials | Analysis | Options | Holders | Sustainability |

Previous Close	162.54	Market Cap	361.059B	
Open	163.45	Beta (3Y Monthly)	0.88	
Bid	165.27 x 900	PE Ratio (TTM)	34.14	
Ask	165.25 x 1000	EPS (TTM)	4.84	
Day's Range	162.86 - 165.38	Earnings Date	Jul 23, 2019 - Jul 29, 2019	
52 Week Range	121.60 - 165.74	Forward Dividend & Yield	1.00 (0.61%)	
Volume	2,363,200	Ex-Dividend Date	2019-05-16	
Avg. Volume	7,964,537	1y Target Est	180.49	

1D 5D 1M 6M YTD 1Y 5Y **Max**   ⤢ Full screen

200.00
165.24
133.33
66.67
0.00
01-Mar-08   01-Nov-13

Trade prices are not sourced from all markets

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International Business Machines Corporation (IBM)
NYSE - Nasdaq Real Time Price. Currency in USD

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135.62 +1.22 (+0.91 %)
As of 11:01AM EDT. Market open.

Buy   Sell

| Summary | Chart | Conversations | Statistics | Historical Data | Profile | Financials | Analysis | Options | Holders | Sustainability |

Previous Close	134.40	Market Cap	120.211B	
Open	134.74	Beta (3Y Monthly)	1.62	
Bid	135.33 x 800	PE Ratio (TTM)	14.27	
Ask	135.36 x 800	EPS (TTM)	9.50	
Day's Range	134.64 - 135.62	Earnings Date	Jul 17, 2019	
52 Week Range	105.94 - 154.36	Forward Dividend & Yield	6.28 (4.48%)	
Volume	504,679	Ex-Dividend Date	2019-05-09	
Avg. Volume	3,603,916	1y Target Est	147.06	

1D 5D 1M 6M YTD 1Y 5Y **Max**   ⤢ Full screen

260.00
173.33
135.62
86.67
0.00
01-Jan-62   01-Oct-90

Trade prices are not sourced from all markets

American Express Company (AXP)
NYSE - Nasdaq Real Time Price. Currency in USD

☆ Add to watchlist

118.95 +1.29 (+1.10 %)
As of 11:04AM EDT. Market open.

Buy   Sell

Summary   Chart   Conversations   Statistics   Historical Data   Profile   Financials   Analysis   Options   Holders   Sustainability
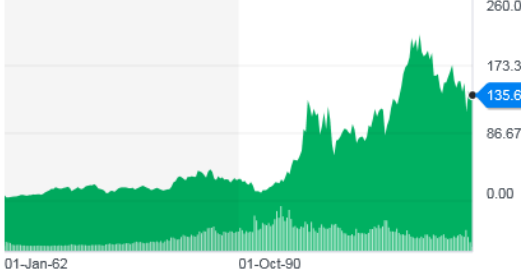
Previous Close	117.66	Market Cap	99.383B	
Open	117.77	Beta (3Y Monthly)	1.10	
Bid	118.77 x 1100	PE Ratio (TTM)	15.15	
Ask	118.79 x 800	EPS (TTM)	7.85	
Day's Range	117.77 - 119.07	Earnings Date	Jul 16, 2019 - Jul 22, 2019	
52 Week Range	89.05 - 119.66	Forward Dividend & Yield	1.56 (1.33%)	
Volume	954,906	Ex-Dividend Date	2019-07-03	
Avg. Volume	3,319,275	1y Target Est	121.59	

1D 5D 1M 6M YTD 1Y 5Y **Max**   📈   ↗ Full screen

140.00
118.98
93.33
46.67
0.00

01-Jun-72   01-Dec-95

Trade prices are not sourced from all markets

2. The daily supply and demand functions of Microsoft Corporation shares (MSFT) are given respectively by Q_D = 24,000 -60p and Q_S = -6,000 + 240p, where p is the daily price expressed in dollars and Q is the daily volume of shares expressed in millions.
Please indicate:

    a) Why people demand shares?
    b) How does the quantity demanded of shares change when the price increases by one dollar?
    c) Plot the two curves.
    d) Indicate the meaning of the supply curve.
    e) Find the inverse supply curve and briefly explain its meaning.
    f) What is the price from which potential seller will decide to enter the stock market?
    g) Determine the stock market equilibrium.

    h) Starting from the stock market equilibrium (market clearing price), show graphically any shift in the demand curve (keeping fixed the supply schedule) when one of the following event takes place:

• The price of Apple shares drops.
• The price of American Express shares increases.
• The returns offered by the commodity market rise.
• Microsoft announces the development of a new innovative product.
• The announcement of a new military venture by the US in response to the outbreak of civil unrest abroad
• There are very positive forecasts on the US economic growth

m) If market makers closed the Ask price at $ 120, what would be the effects on the Microsoft stock market?

3. 3.1   A person who purchases common stock of a corporation is known as:
    a. preferred stockholder
    b. creditor
    c. bond holder
    d. common stockholder

   3.2 Which of the following statements is not true about preferred stock?
    a. The rate of dividend is usually fixed
    b. Stockholders always have a voting right
    c. Stockholders' usually have a preference as to assets upon liquidation of the corporation

     d. Stockholders' usually have a preference as to dividends

3.3 Who is known as the real owner of the corporation?
    a. A creditor
    b. A preferred stockholder
    c. A common stockholder
    d. A director

3.4 Explain why you would be more or less willing to buy a share of Coca Cola stock in the following situations:
    a. Your wealth falls.
_____

    b. You expect the stock to appreciate in value.
_____

    c. The bond market becomes more liquid.
_____

    d. You expect gold to appreciate in value.
_____

    e. Prices in the bond market become more volatile.
_____

3.5 What will happen to the demand for Monet paintings if the stock market undergoes a boom? Why?
_____
_____
_____

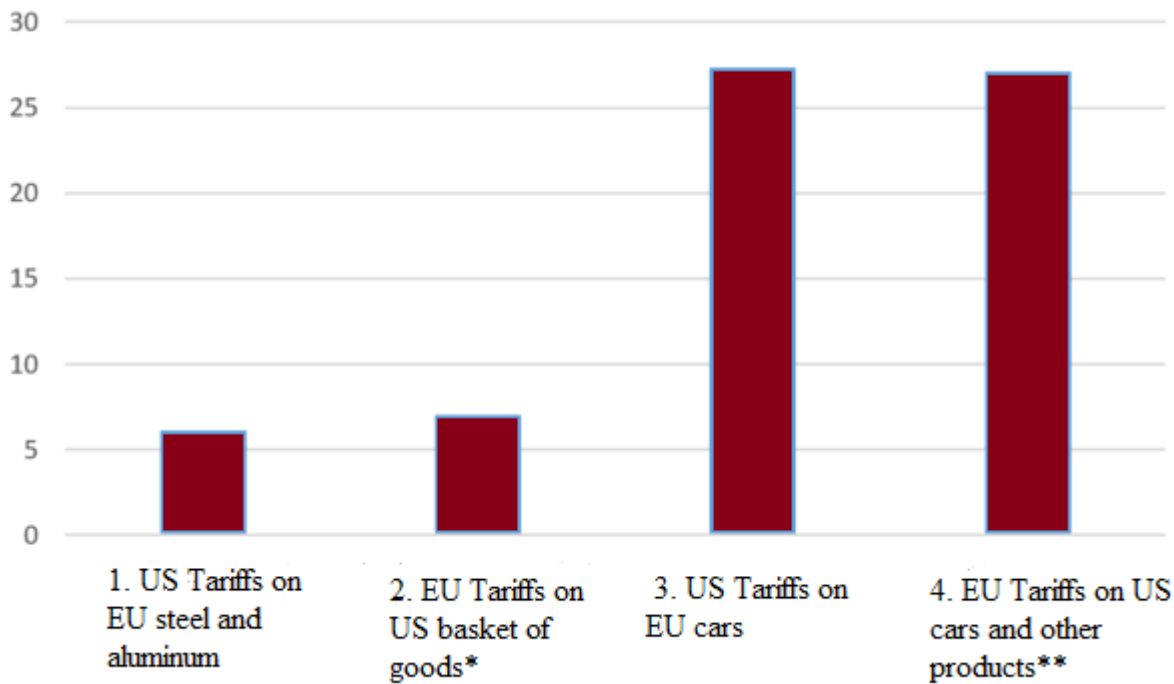**3.6 The Standard & Poor's 500 Index is an example of a:**

    a) Coincident indicator.
    b) Leading indicator.
    c) Peak.
    d) Lagging indicator.
    e) Business cycle.

3.7 If you suspect that a company will go bankrupt next year, which would you rather hold, bonds issued by the company or equities issued by the company? Why?
_____

3.8 The political and economic scenario between the two sides of the Atlantic (Europe and the United States) seems gloomy. Through the initiative on steel and aluminum, the American administration identifies in international trade and in the US trade imbalance (the import of the two products was worth 43 billion euros in 2017, more than double the amount exported) a real threat to national security both in strategic (both materials enter heavily in the defense industry) and economic terms (in particular in terms of employment in the sectors involved). Trade between Europe and the United States amounts to about 700 billion euros and represent the main bilateral capital flow at global level. The temporary exemption granted to the European Union by the American administration is no longer valid: tariffs of 25% on steel and 10% on aluminum enter into force. Since the announcement of the measures on aluminum and steel, the European Union has prepared a list of products made in the USA to be subjected to tariffs including jeans, bourbon, peanut butter, motorcycles, cosmetics, corn and wheat. The United States subsequently responded by identifying in the European cars the possible target in case of counter-measures by the EU. It is not difficult to imagine the reaction of Brussels: importation block of cars from the United States plus other goods such as soy and agricultural products and the main specialized products of Florida, Ohio, and Pennsylvania.

a) Examine the following chart, explain the meaning and propose a title.

Source: Prometeia on Eurostat data and National Statistical Institutes
Note: Axis Y: US-EU trade flows (value in billions of euros)
*The same steel and aluminum codes + jeans, bourbon, peanut butter, motorcycles, cosmetics, corn and wheat
** Auto USA + soy and other agricultural products + major products Florida, Ohio, Pennsylvania

According to the estimates of an econometric model of Prometeia Institute that links the level of tariffs to the quantities exported to the United States, the unilateral rise in US tariffs would translate for the European Union into a 4.4 billion euro decline in exports of steel and aluminum (about a third of current levels). At the same time the United States would show an increase of 1.9 billion euro, thanks to a greater domestic production.

If instead Europe would be the first to impose duties unilaterally on the products previously mentioned, the United States would lose 7.8 billion euro in exports and Europe would gain 2.9 billion euro. If both Europe and the United States were to adopt protectionist policies, an escalation would take place in the war of tariffs that could lead to a loss in terms of lower exports of 7.3 billion euros for the US and 4.1 billion euros for Europe. If, on the other hand, Europe and the United States proceeded with free trade, there would be no loss or gain, and the quantities exported and imported would not register any change.

b) Build the payoff matrix considering that the commercial strategies available to Europe and the United States are "Free Trade" and "Tariffs".

c) Determine the equilibrium of the game.

d) How would you solve the problem?