**Applied Economic Exercise**

**For members of** [**www.economicstutor.com.au**](http://www.economicstutor.com.au)

Watch the video clip produced by ‘Netflix’ at the following link and answer the questions that follow <https://www.youtube.com/watch?v=ZCFkWDdmXG8&feature=youtu.be>

1. Define both a stock (or share) and an Initial Public Offering (IPO). [2.00]

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1. Define profit and outline the relationship between profit and dividends. [2.30]

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1. Define the stockmarket. [3.05]

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1. Distinguish the New York Stock Exchange (NYSE) from the NASDAQ. [3.20]

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1. Explain the role of an index in measuring the performance of a stockmarket. Distinguish the S&P 500 from the Dow jones Industrial Average [4.00] and quickly do research on the internet to determine the Australian equivalents.

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1. Explain why companies with single shareholders (i.e. private companies) increasingly decided to offer up shares to the general public in the early 1900s. [4.40]

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1. Analyse the relationship between a bad decision by a company’s Chief Executive Officer (CEO) and that company’s share price.

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1. Analyse the relationship between the ‘possibility of a future payout’ and the willingness to Invest in the company. [5.30]

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1. Explain how, after World War 2, the stock market helped to create ‘the heyday of shared American prosperity’. [6.00]

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1. Discuss the view that corporations were ‘supposed to serve not just shareholders, but also shareholders, bondholders (i.e.lenders to the corporation), employees, suppliers and the community’. [6.45]

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1. Briefly describe Warren buffet’s strategy to investing in the stockmarket. [7.30] In your response, refer to an index fund. [7.55].

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1. Outline the nature and implications of the ‘bet’ between Warren and a ‘hedge fund’ in relation to the performance of stocks contained in an ‘index fund’ to those contained in a ‘hedge fund’ managed by professional investors [8.07].

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1. Describe the strategy for stockmarket investing that was developed by John Maynard Keynes [8.20]. In your answer, refer to the ‘Beauty Contest’ run by the newspaper.

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1. Explain how the Volkswagon emissions scandal (where the company falsified research results about the emissions of its vehicles) affected the share price of Volkswagon. [9.25]

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1. Explain why the shares in ‘internet companies’ increased to the point where it developed into a bubble (i.e. the dotcom boom) in the late 1990s. [9.35]

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1. Explain how the end of a sharemarket bubble can affect the real economy. [10.35]

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1. Summarise the view of Milton Friedman in relation to the responsibilities or obligations of a company. [11.30]

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1. Gordon Gekko’s character in the movie ‘Wall St’ famously said that ‘greed is good’. In the context of sharemarkets and/or capitalism, discuss the idea that ‘greed is good’ [11.59]

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1. Describe the implications of linking the remuneration of a company’s CEO to the movements or performance of that company’s share price. [12.25]

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1. Explain how a company buying back its shares on the market is expected to influence the price of its shares and the possible remuneration of the CEO. [12.55]

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1. Explain how companies spent their earnings between 2007-2016 and examine the implications for ‘the economy’ [13.00]

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1. Use the example of the Wausau Paper Company to illustrate the idea that a company’s short-term focus on its share price performance can be damaging to the economy. [13.36]

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1. A company has obligations to its shareholders…not to its employee stakeholders. Discuss [14.50]

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1. Identify the remuneration of the average CEO compared to the average worker in 1973 and contrast this with that recorded in 2016. Describe the role of the stockmarket in fostering the growth in CEO remuneration and discuss the implications for the wealth and inequality [15.35]

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1. Explain how shareholders can influence the way that companies behave in ways that benefit society more generally. [16.30]

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