UNIVERSITE PARIS 1 PANTHEON-SORBONNE
UFR 06 / SGEL
LICENCE DE GESTION ET ECONOMIE D'ENTREPRISE, Semestre 1

Partiel d'anglais appliqué à la gestion

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Durée: 2 heures

No documents allowed. Write your answers on the official answer sheets provided.

PART I: *Reading*

A. *Read the text below entitled* ***Stock Exchanges and Corporate Capital Needs*** *and address the ensuing vocabulary and comprehension exercises.*

Stock Exchanges and Corporate Capital Needs

Although **corporations** often raise needed funds by selling stock, they do not normally do so through the **stock exchanges**. New **stock issues** are typically handled by a special type of bank, called an **investment bank.** In contrast, the stock markets **trade** almost exclusively in "**second-hand securities"** – stocks in the hands of individuals and others who bought them earlier and now wish to sell them. Thus, the stock market does not provide funds to corporations needing financing to expand their productive activities. The markets provide money only to persons who already hold previously issued **stocks.**

Nevertheless, stock exchanges perform two critically important functions for corporate financing. First, by providing a second-hand market for stocks, they make individual investment in a company less risky. Investors know that if they need money, they can always sell their stocks to other investors or to stock market specialists at the current market price. This reduction in risk makes it far easier for corporations to issue new stocks. Second, the stock market determines the current price of the company's stocks. That, in turn, determines whether it will be difficult or easy for a corporation to raise money by selling new stocks.

Some people believe that a company's stock price is closely tied to its operational efficiency, its effectiveness in meeting consumer demands, and its diligence in going after profitable innovation. According to this view, firms that use funds effectively will usually have comparatively high stock prices, and that will enable the firms to raise more money when they issue new stocks through their investment banks and sell them at the high prices determined by the stock market. In this way, the stock market tends to channel the economy's funds to the firms that can make best use of the money. In sum:

If a firm has a promising future, its stock will tend to command a high price on the stock exchanges. Its high stock price will increase the firm's ability to raise capital by permitting it to amass a large amount of money through the sale of a comparatively small number of new shares. Thus, the stock market helps to allocate the economy's resources to firms that can best use those resources.

Other people voice scepticism about the claim that the price of a company's stock is closely tied to efficiency. These observers believe that the demand for a stock is disproportionately influenced by short-term developments in the company's profitability and that the market pays little attention to management decisions affecting the firm's long-term earnings growth. These critics sometimes suggest that the stock market is similar to a gambling casino in which hunch, rumour, and superstition have a critical influence on prices.

Whether or not stock prices are an accurate measure of a company's efficiency, if a company's stock price is very low in comparison with the value of its plant, equipment, and other **assets**, or when a company's **earnings** seem low compared to its potential level, that company becomes a tempting target for a **takeover**. Perhaps the firm's current management is believed not to be very competent and those who seek to take control of the company believe that they can do better. Alternatively, if the demand for a company's stocks is believed to be inordinately influenced by short-term developments, such as temporarily low profits, others may believe that it is a bargain in terms of the low current price of the stock and its more promising future earnings. A takeover occurs when a group of outside financiers buys a sufficient amount of company stock to gain control of the firm. Often, the new controlling group will simply fire the current management and substitute a new chairman, president, and other top officers.

William J. Baumol & Alan S. Blinder, *Economics: Principles and Policy*, © 2009 South-Western Cengage Learning, pp. 185-189

B. Vocabulary (5 points)

a) *Define or explain the following concepts in English. Do not translate them into French.*

1. stock issues (paragraph 1, line 2)

2. investment bank (paragraph 1, line 3)

3. trade (paragraph 1, line 3)

4. second-hand securities (paragraph 1, lines 3§4)

5. takeover (paragraph 6, line 4)

b) *Find words in the text with equivalent meanings to the following ones. Give the line reference of the synonym you have selected.*

6. corporations (paragraph 1, line 1)

7. stock exchanges (paragraph 1, line 2)

8. stocks (paragraph 1, last line)

9. assets (paragraph 6, line 3)

10. earnings (paragraph 6, line 3)

C. Comprehension (5 points)

*Say whether the statements below are **True** or **False**. Justify your answer with a sentence from the text.*

1. The stock exchange channels money directly to companies which need funds for their expansion. **(T / F)**

2. The stock exchange increases risk to investors who choose to buy new stocks. **(T / F)**

3. Each company quoted on the stock exchange sets its own stock price. **(T / F)**

4. It is universally believed that the price of a company's stock is intimately linked to the company's performance. **(T / F)**

5. The price of a company's stock is high when the company has good prospects. **(T / F)**

6. Some people compare trading on the stock exchange to lottery. **(T / F)**

7. A company is subject to a takeover if its stock tends to command a high price on the stock exchange. **(T / F)**

8. A company is subject to a takeover whenever people buy its stock. **(T / F)**

9. When there is a takeover, the new owners usually keep all the senior managers in place in order to ensure a smooth transition. **(T / F)**

10. Stock exchanges play a dual role in corporate financing. **(T / F)**

PART II. ***Grammar*** **(5 points)**

In the sentences below, put the verbs in brackets in the ***ing*** *or the* ***to-infintive*** *form.*

1. People usually buy stocks in order *(sell)* them later.

2. With the greater fool theory of (invest), it makes sense *(buy)* a stock at a foolishly high price if you can sell it at an even higher price – to an even greater fool!

3. *(Sustain)* a comfortable life for another two or three decades as many retirees hope to do requires money.

4. Now is the time to consider *(purchase)* technology stocks.

5. Companies keep on *(raise)* funds for their expansion.

6. With the rapid growth of the internet, people now enjoy *(trade)* from home.

7. Stock brokerage firms maintain compliance departments *(oversee)* their own operations.

8. They use sophisticated computer surveillance systems *(scrutinize)* trading activity.

9. Since the stock exchange began *(fall)*, friends have been coming to Barbara Goldsmith *(talk)* about their depression, loss of appetite or insomnia.

10. In theory, retired people are not supposed *(invest)* much in the stock exchange; in reality, many million of them do.

PART III. ***Writing*** **(5 points)**

Is trading on the stock exchange a matter of pure speculation?

Argue your point in a minimum of 100 words. Count and write the number of words you have used in your essay.You lose 1 point if you fail or forget to do so.

Good luck!

Key to answers and guidelines for marking

Part I. B: Vocabulary (5 points)

a) definitions

1. *stock issues* : the shares (equities) or bonds sold by a corporation at a particular time
2. *investment bank*: financial establishment which buys bond or stock issues in their entirety from the issuing corporation and which then sells them to other security dealers or to the investing public
3. *trade:* exchanging, i.e buying and selling (shares)
4. *second-hand securities*: stocks which are already in the hands of individuals and others who bought them earlier and which are now available for sale on the exchange market
5. *takeover*: the acquisition by an outside group (the raiders) of a controlling proportion of a company stock; *acquisition, buyout*

b) synonyms

6. *firms*, paragraph 3, lines 3, 4 and 6
7. *stock markets*, paragraph 1, line 3
8. *shares*, paragraph 4, line 3
9. *resources*, paragraph 4, last line
10. *profits,* paragraph 6, line 7

<u>Marking</u>: half a point for a correct answer. Nothing to be awarded otherwise.

Part I. C: Comprehension (5 points)

1. **False.** The stock market does not provide funds to corporations needing financing to expand their productive activities. *(paragraph 1, lines 5 and 6)*
2. **False.** Stock exchanges make individual investment in a company less risky because investors know that if they need money, they can always sell their stocks to other investors or to stock market specialists at the current market price. *(paragraph 2, lines 2 to 4)*
3. **False**. It's the stock market that determines the current price of the company's stocks. *(paragraph 2, lines 5 and 6)*
4. **False.** Some people believe that a company's stock price is closely tied to its operational efficiency *(paragraph 3, line 1)* but others voice scepticism about the claim that the price of a company is closely tied to efficiency. *(paragraph 5, line 1)*
5. **True.** If a firm has a promising future, its stock will tend to command a high price on the stock exchanges. *(paragraph 4, lines 1 and 2)*
6. **True.** Critics sometimes suggest that the stock market is similar to a gambling casino in which hunch, rumour, and superstition have a critical influence on prices. *(paragraph 5, last sentence)*
7. **False.** It's the contrary. If a company's stock price is very low in comparison with the value of its plant, equipment and other assets, …....... that company becomes a tempting target for a takeover. *(last paragraph, lines 2 and 4)*
8. **False.** A takeover occurs when a group of outside financiers buys <u>a sufficient amount of</u>

company stock to gain control of the firm *(last paragraph, lines 8 to 11)*, usually over 50%.

9. **False.** Often, the new controlling group will simply fire the current management and substitute a new chairman, president, and other top officers. *(last paragraph, last sentence)*
10. **True.** Stock exchanges perform two critically important functions for corporate financing. *(paragraph 2, line 1)*

Marking

A quarter of a mark **(0.25 point)** for a correct **True/ False** and another **0.25point** if the sentence the student has quoted to justify the answer is the right one. Do not proceed to reading the justification if the **True /False** part of the answer is wrong.

Part II. *Grammar* (5 points)

1. to sell
2. investing, to buy
3. Sustaining
4. purchasing
5. raising
6. trading
7. to oversee
8. to scrutinize
9. to fall, to talk
10. to invest

Marking

Half a point (0.5 point) for each correctly written sentence whether it consists of 1 or 2 verb forms sought.

Part III. *Writing* (5 points)

1 point to be systematically awarded to a student who has written a minimum of 100 words.

1 point to systematically withheld for inadequate length or if the student has failed to count the number of words s-he has written.

Up to 2 points for satisfactory substance: some sense in what the student has written,whether or not you agree with his/her stance.

Up to 1 point for writing in good English, i.e good lexical and grammatical choices.

Up to 1 point for good cohesion and coherence.