UNIT 4: FURTHER PRACTICE

4.3.1. Complete the sentences below using the words/phrases in the box.

creditors	principal	debt financing	equity financing	investors	dividend

1. ________________ is when the company gets a loan, and promises to repay it over a set period of time, with a set amount of interest.

2. If a consumer is having trouble covering debts, he or she can contact ________________ to try to work out a payment plan.

3. ________________ are invited to subscribe for the shares directly with the company.

4. The bank has made steady progress in spite of innumerable difficulties, and paid a fair ________________ to its shareholders.

5. ________________ is a method of raising funds to meet liquidity needs of an organization by selling a company's stock in exchange for cash.

4.3.2. Choose the best answer among A, B, C or D.

The difference between stocks and bonds is that stocks are .....(1).....in the ownership of a business, while bonds are a form of ....(2).... that the issuing entity promises to repay at some point in the future. A balance between the two types of funding must be achieved to ensure a proper ....(3).... structure for a business. More specifically, here are the key differences between stocks and bonds:

- *Priority of repayment*. In the event of the liquidation of a business, the holders of its stocks have the last claim on any residual cash, whereas the holders of its bonds have a considerably higher priority, depending on the terms of the bonds. This means that stocks are a .....(4)...... investment than bonds.

- *Periodic payments*. A company has the option to reward its shareholders with ....(5)......, whereas it is usually obligated to make periodic interest payments to its bond holders ....(6)..... very specific amounts. Some bond agreements allow their issuers to delay or cancel interest payments, but this is not a common feature. A delayed payment or cancellation feature reduces the amount that investors will be willing to pay for a bond.

- *Voting rights*. The holders of stock can vote on certain company issues, such as the election of directors. Bond holders have no voting rights.

UNIT 4: FURTHER PRACTICE

1.

A. share B. shares

C. sharing D. shareable

2.

A. debt B. asset

C. repayment D. credit

3.

A. indebtedness B. loan

B. C. capital D. liabilities

4.

A. risky B. riskier

B. C. safe D. safer

5.

A. fee B. interest

B. C. capital D. dividends

6.

A. to B. for

B. C. on D. with