Answer Key A.3
Case studies answer key

A.1 – eToys: Sample answers

1. What is the company's service or product?
eToys sells toys online only. The company was unique in that it allowed people to search for toys using different categories. The company also provided a service by reminding people of birthdays and keeping track of birthday wish lists. This helped make it easier for people to buy the toys.

2. Explain any new financial terms used in this case study.
Venture capital firm – a group of investors who provide money to businesses just starting out. The investment is considered risky but there could be a large profit.

3. Was the IPO successful? Explain.
The IPO was considered successful. The IPO was offered at $20 per share and rose to $77 per share on the first day. This made the company worth a lot of money on paper.

4. How did the stock perform over time?
The stock immediately started to decline. It was at a high of $84.39 in October of 1999 and by January of 2000 it was down to $26.25. By February of 2001 it was selling for $0.09 per share.

5. What are some of the reasons for any change in the stock price?
The reason the shares rose rapidly during the IPO was probably due to the fact that the business idea was the first of its kind and because of its previous Christmas success. But the previous Christmas success was based on the unavailability of one toy and there was no guarantee that would happen during the next Christmas.

   The stock price declined because investors realized the company was posting losses. This was worsened when analysts predicted at least four more years of losses. The company kept trying to expand but it could not meet customer demand, so losses continued.

6. How many people in your group would buy this stock right now? What are your reasons?
Answers will vary. Students need not agree but should provide some reason for their choice.

A.2 – Facebook: Sample answers

1. What is the company's service or product?
Facebook is a free social networking website. It makes the majority of its income from advertisement and a small portion of its income from games and other add-on applications.

2. Explain any new financial terms used in this case study.
An underwriter is a company that manages stocks for a corporation. The underwriter works closely with the corporation to determine the IPO stock price before buying stocks from the corporation and selling them to investors.

   The adjusted closing price on a stock is the closing price of a stock on any trading day. This price is the price of the last stock sold that day, with adjustments for dividends and stock splits.

3. What happened to the stock right after the IPO? Explain.
Immediately after the IPO, the stock set a new record for trading volume. However, it later became known that the stock price didn't fall below the IPO price on the first day of trading because of technical glitches that stopped orders from going through and misleading information from underwriters. The stock price fell a lot in the days shortly after the IPO.

4. How did the stock perform over time?
By the end of May 2012, the stock had lost over a third of its value, dropping to $25.50. However, the stock value slowly rose back up and was at $32 a share in mid-June 2012.

5. What are some of the reasons for any change in the stock price?
There are a couple of main reasons for the change in the Facebook, Inc. stock price. Trading glitches interrupted the first stock orders, which prompted a lawsuit. Facebook's underwriters are also under investigation for failing to supply the public with information on Facebook's financial state. Both of these reasons have made stockholders wary, which decreased both the demand for this stock and the price of this stock.

6. How many people in your group would buy this stock right now? What are your reasons?
Answers will vary. Students need not agree but should provide some reason for their choice.