

Name \_\_\_\_\_

## Understanding Stock Prices: How They're Determined

### Open-Ended Response Answer Key

1. Company performance, including factors like earnings growth, profitability, and management quality, directly impacts stock prices. Investors should assess a company's financial health because it affects the long-term potential of their investments.
2. Placing a market order means buying or selling a stock immediately at the current market price, while a limit order specifies a particular price at which the investor is willing to buy or sell. Market orders ensure execution but may not guarantee a specific price, while limit orders allow investors to control the price but may not execute if the specified price isn't reached.
3. Market sentiment can be influenced by factors like news reports, economic data, and public perception of a company or industry. Positive sentiment can lead to higher stock prices, while negative sentiment can cause price declines. For example, positive sentiment following a successful product launch can boost a company's stock.
4. Stock price volatility can present opportunities for short-term traders but challenges for long-term investors. Investors should be aware that price swings can be more significant during volatile periods and may result from external factors. Diversifying a portfolio and having a long-term perspective can help manage volatility's impact.

