Examination - University of Delhi

Name :- SANYAM JAIN

Programme Name :- (CBCS) B.Com (H)

Semester :- VI

Examination Roll No. :- 17063504105

unique Paper Code :- 22417601

Paper titel :- FUNDAMENTALS OF INVESTMENT

Date and time of examination :- 14/08/20   11:30 A.M

Name of College   Sadyawati College (Eve).

Signature :-

Sanyam 17063504105

Situation I (Present Position)

The share price is :- $P_0 = \dfrac{D_0(1+g)}{K_e - g}$

$D_0 = 10$, $g = 5\% = 0.05$

$K_e = 15\% = 0.15$

$P_0 = \dfrac{10(1+0.05)}{0.15 - 0.05}$

$= \dfrac{10(1.05)}{0.1}$

$= \dfrac{10.5}{0.1}$

$= 105$

Situation II (Proposed position) :- The share price after announcing the reorganisation (assuming that the market believes the Directors forecast of growth in dividends) is :-

Share price at the end of year 2!

The share price is $P_2 = \dfrac{D_3}{K_e - g}$

Sanjam 170635041057 jay

$D_3 = 8$, $ke = 15\% = 0.15$, $g = 10\% = 0.1$

$$P_2 = \frac{8}{0.15 - 0.1}$$

$$= \frac{8}{0.05}$$

$$= 160$$

The present value of this price is $= P_2 \times PvF (15\%, 2)$

$= \cancel{160 \times}$

$= 160 \times 0.756$

$= ₹ 120.96$

Price of share in case there is no reorg. reorganization $= ₹105$

Price of share in case reorganization does take place $= 120.96$