

Topic: Dividend Decision

Example 1: The following information available for a company.

- Earnings per share : Rs. 10
- Rate of return on investment : 15 percent
- Rate of return required by shareholders : 12.5 percent

What will be the price per share as per the Walter model if the payout ratio is 20 percent? 100 percent? 0 percent?

Example 2:

A company earns Rs. 10 per share. The firm has a policy of paying 50 percent of earnings as dividends. The required rate of return is 10 per cent.

Determine the price of the share under Gordon's Model if the internal rate is 15 percent? 10 percent? 8 percent?

Practice Example:

A company earns Rs. 10 per share at an internal rate of 15 percent. The firm has a policy of paying 40 percent of earnings as dividends.

If the required rate of return is 10 percent, determine the price of the share under (i) Walter Model (ii) Gordon Model.