

Q-1. An analyst gathered the following information about a company and the market:

Current market price per share of common stock	25.00
Most recent dividend per share paid on common stock (D_0)	\$1.50
Expected dividend payout rate	50%
Expected return on equity (ROE)	20%
Beta for the common stock	1.2
Expected rate of return on the market portfolio	15%
Risk-free rate of return	5%

Using the discounted cash flow (DCF) approach, the cost of retained earnings for the company is closest to:

- A. 15.7%.
- B. 16.6%.
- C. 17.0%.

Q-2. Which method of calculating the firm's cost of equity is most likely to incorporate the long-run return relationship between the firm's stock and the market portfolio?

- A. Capital asset pricing model
- B. Dividend discount model
- C. Bond yield plus risk premium approach

Q-3. Recently GF Company has made an adjustment for its capital structure, so the equity beta under the new capital structure for GF Company needs to be calculated, and relevant information is shown below:

Asset beta	1.25
Debt to equity ratio before the structure change	3:4
Debt to equity ratio after structure change	2:3
Comparable Firm Tax Rate	40.0%

GF Company's equity beta is closest to:

- A. 1.25.
- B. 1.75.
- C. 0.89.

Q-4. Wang Securities had a long-term stable debt-to-equity ratio of 0.65. Recent bank borrowing for expansion into South America raised the ratio to 0.75. The increased leverage has what effect on the asset beta and equity beta of the company?

- A. The asset beta and the equity beta will both rise.
- B. The asset beta will remain the same and the equity beta will rise.

- C. The asset beta will remain the same and the equity beta will decline.

Q-5. An analyst gathered the following information about GF, a manufacturing company in a developing country.

	Selected Market Information (%)
Beta of GF	1.5
Yield on 10-year government bond	2
Annualized return of stock index	8
Country risk premium	3

Based on the analyst's data, the estimated country equity premium for GF is closest to:

- A. 14.29%.
B. 6.5%.
C. 15.5%.