1. A company's non-callable, non-convertible preferred stock that pays an annual dividend of $3.75 is currently selling at its par value of $50 per share. If the required rate of return increases by 75 bps, the preferred stock's new price is closest to:

A. $45.45.

B. $49.50.

C. $55.56.

2. An investor gathers the following data to estimate the intrinsic value of a company's stock using the justified forward price-to-earnings ratio (P/E) approach.

Next year's earnings per share	$3.00
Return on equity	12.5%
Dividend payout ratio	60%
Required return on shares	10%

The intrinsic value per share is closest to:

A. $36.

B. $48.

C. $72.

3. Which of the following statements concerning different valuation approaches is most accurate?

A. One advantage of the three-stage dividend discount model (DDM) model is that it is equally appropriate to young companies entering the growth phase and those entering the maturity phase.

B. It is advantageous to use asset-based valuation approaches rather than forward-looking cash flow models in the case of companies that have significant intangibles.

C. The justified forward price-to-earnings ratio (P/E) approach offers the advantage of incorporating fundamentals and presenting intrinsic value estimations.

4. An investor uses the following data and Gordon's constant growth dividend discount

model to evaluate a company's common stock. To estimate growth, she uses the average of the

1 average value of the compounded annual dividend growth rate over the period of 2006–2011, and

2 dividend payout ratio for the year 2011.

Year	Earnings per Share	Dividend per Share	Return on Equity
2011	$3.20	$1.92	12%
2010	$3.60	$1.85	17%
2009	$2.44	$1.74	13%
2008	$2.08	$1.62	15%
2007	$2.76	$1.35	11%
2006	$2.25	$1.25	9%

If her required return is 15%, the stock's intrinsic value is closest to:

A. $30.14.

B. $25.31.

C. $23.71.

5. An investor considering the enterprise value approach to valuation gathers the following data:

Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$65.8 million
Value of debt	$90.0 million
Value of preferred stock	$25.4 million
Cash and marketable securities	$6.9 million
Number of common shares outstanding	12.5 million

Firm's tax rate	30%
EV/EBITDA multiple	6×

The value per share of the company's common stock is closest to:

A. $13.43.

B. $22.35.

C. $22.90.