In-class Exercise 1

Keenan Co. is expected to maintain a constant 5.2 percent growth rate in its dividends indefinitely.

If the company has a dividend yield of 6.3 percent, what is the required return on the company's stock?

In-class Exercise 2

Far Side Corporation is expected to pay the following dividends over the next four years: $11, $8, $5 and $2. Afterward, the company pledges to maintain a constant 5 percent growth rate in dividends forever.

If the required return on the stock is 12 percent, what is the current share price?