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ECO358 - Assignment 1

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Contents

1	Equity cost of Capital	1
1.1	One-period cost of equity	1
1.2	Issue	1
2	Market Value of Equity	1

1 Equity cost of Capital

The equity cost of capital per quarter is

$$r_E = 4 \cdot \frac{D}{P_0} = 4 \cdot \left(\frac{0.362}{35.72} \right) \approx 4.05\% \quad (1)$$

1.1 One-period cost of equity

To compute one-period return, we buy the stock after the Jun 9 dividend date, and hold until after Sep 8 dividend date.

$$r_{E,APR} = 4r_q = 4 \left(\frac{35.72 - 26.65 + 0.362}{26.65} \right) = 4 \left(\frac{9.432}{26.65} \right) = 1.415685 \approx 141.57\% \quad (2)$$

1.2 Issue

- Volatility
- exchange fee

2 Market Value of Equity

Market Value of Equity=Shares Outstanding×Market Price per Share