Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** Of the following choices, which one applies to the dividend growth model of stock valuation?

1) \_\_\_\_\_\_

A) The dividend must be for the same time period as the stock price.   
 B) The growth rate must be less than the discount rate.  
 C) The rate of growth must be positive.  
 D) The model cannot be applied if the growth rate is zero.  
 E) The dividend amount must be constant over time.

**2)** A stock can be valued by using the \_\_\_\_\_\_\_\_ formula if the stock pays a constant annual dividend.

2) \_\_\_\_\_\_

A) fixed coupon bond present value   
 B) present value of an annuity due  
 C) payout ratio  
 D) present value of an ordinary annuity  
 E) perpetuity present value

**3)** In the formula, *P3* = *D*x/(*R* − *g*), the dividend is for period:

3) \_\_\_\_\_\_

A) two.   
 B) five.  
 C) four.  
 D) three.  
 E) one.

**4)** The differential growth model of stock valuation:

4) \_\_\_\_\_\_

A) makes allowance for one change in the discount rate.   
 B) uses *DT* + 1 as the dividend amount throughout the formula.  
 C) requires *g*2 to be less than the discount rate.  
 D) assumes the second growth rate will be zero.  
 E) assumes the first growth rate will be zero.

**5)** The constant dividend growth model:

5) \_\_\_\_\_\_

A) is more complex than the differential growth model.   
 B) requires the growth period be limited to a set number of years.  
 C) is never used because firms rarely attempt to maintain steady dividend growth.  
 D) can be used to compute a stock price at any point in time.  
 E) most applies to stocks with differential growth rates.

**6)** The underlying assumption of the dividend growth model is that a stock is worth:

6) \_\_\_\_\_\_

A) the same amount to every investor regardless of their desired rate of return.   
 B) the present value of the future income that the stock is expected to generate.  
 C) an amount computed as the next annual dividend divided by the market rate of return.  
 D) the same amount as any other stock that pays the same current dividend and has the same required rate of return.  
 E) an amount computed as the next annual dividend divided by the required rate of return.

**7)** Assume you are using the dividend growth model to value stocks. If you expect the market rate of return to increase for all equity securities, then you should also expect the:

7) \_\_\_\_\_\_

A) market values of all stocks to increase.   
 B) market values of all stocks to remain constant as the dividend growth will offset the increase in the market rate.  
 C) market values of all stocks to decrease.  
 D) stocks that do not pay dividends to decrease in price while the dividend-paying stocks maintain a constant price.  
 E) dividend growth rates to increase to offset this change.

**8)** Ollivette is a relatively new firm and is in a period of rapid development. The company plans on retaining all of its earnings for the next four years. Five years from now, the company projects paying an annual dividend of $.33 per share and then increasing that amount by 2 percent annually thereafter. To value this stock as of today, you would first determine the value of the stock \_\_\_\_\_ years from today, and then determine today’s value.

8) \_\_\_\_\_\_

A) 4   
 B) 5  
 C) 6  
 D) 7  
 E) 8

**9)** Singh Sport Training currently pays no dividends. The company is anticipating annual dividends of $.03, $.07, $.12, and $.25 over the next 4 years, respectively. After that, the company anticipates increasing the dividend by 2.5 percent per year. To value this stock as of today, an analyst would most likely first determine the value of:

9) \_\_\_\_\_\_

A) *P*1.   
 B) *P*3.  
 C) *P*4.  
 D) *P*5.  
 E) *P*6.

**10)** The \_\_\_\_\_\_\_\_ equals the annual dividend amount to be paid next year, divided by the current stock price.

10) \_\_\_\_\_\_

A) yield to maturity   
 B) total yield  
 C) dividend yield  
 D) capital gains yield  
 E) earnings yield

**11)** The \_\_\_\_\_\_\_\_ yield is the rate at which a stock’s price is expected to appreciate or depreciate.

11) \_\_\_\_\_\_

A) current   
 B) total  
 C) dividend  
 D) capital gains  
 E) earnings

**12)** For a firm with a constant payout ratio, the dividend growth rate can be estimated as:

12) \_\_\_\_\_\_

A) Payout ratio × Return on equity.   
 B) Return on assets × Retention ratio.  
 C) Return on equity × (1 + Retention ratio).  
 D) Payout ratio × Return on assets.  
 E) Return on retained earnings × Retention ratio.

**13)** The \_\_\_\_\_\_\_\_ equals the total return on a stock.

13) \_\_\_\_\_\_

A) dividend yield minus the capital gains yield   
 B) dividend growth rate minus the dividend yield  
 C) dividend yield plus the dividend growth rate  
 D) growth rate of the dividends  
 E) dividend divided by the sum of the dividend yield and capital gains yield

**14)** A stock’s PE ratio is primarily affected by which one of the following sets of three factors?

14) \_\_\_\_\_\_

A) Accounting practices, opportunities, the market rate of return   
 B) Dividend yield, capital gains yield, opportunities  
 C) Market rate of return, risk, opportunities  
 D) Accounting practices, market rate of return, risk  
 E) Risk, opportunities, accounting practices

**15)** Of the following choices, which one generally has the greatest impact on a firm’s PE ratio?

15) \_\_\_\_\_\_

A) Required rate of return   
 B) Current dividends  
 C) Future opportunities  
 D) The overall risk level of the current firm  
 E) Depreciation method used by the firm

**16)** The closing price of a stock is quoted at 32.08, with a PE of 21 and a net change of .36. Based on this information, which one of the following statements is correct?

16) \_\_\_\_\_\_

A) The closing price on the previous day was $.36 higher than today’s closing price.   
 B) A dealer will buy the stock at $32.08 and sell it at $32.44 per share.  
 C) The current earnings per share equal $32.08/21 + $.36.  
 D) The current stock price is equivalent to 21 years of the firm’s current earnings per share.  
 E) The earnings per share have increased by $.36 this year.

**17)** A forward PE is generally based on the projected:

17) \_\_\_\_\_\_

A) average earnings for the next five years.   
 B) average earnings for the next three years.  
 C) earnings for the upcoming quarter.  
 D) earnings for the next year.  
 E) stock price in one year.

**18)** Enterprise value equals the:

18) \_\_\_\_\_\_

A) combined market value of debt and equity minus excess cash.   
 B) market value of equity minus the market value of debt plus excess cash.  
 C) market value of debt plus the book value of equity minus excess cash.  
 D) combined market value of debt and equity.  
 E) combined book value of debt and equity minus excess cash.

**19)** One advantage of the EV/EBITDA ratio over the PE ratio is the:

19) \_\_\_\_\_\_

A) inclusion of depreciation charges.   
 B) increased reliance on leverage.  
 C) averaging of annual sales.  
 D) inclusion of all the firm’s cash reserves.  
 E) lessened impact of leverage on the ratio.

**20)** When calculating a firm’s enterprise value,what portion of the firm’s cash should be included, in order to remain in the enterprise value?

20) \_\_\_\_\_\_

A) Only the amount needed to run the business   
 B) None of the cash should be included  
 C) Somewhere between 25 and 50 percent, at the analyst’s discretion  
 D) Only the amount necessary to maintain a constant EV/EBITDA ratio  
 E) The average cash balance over the past three years

**21)** The free cash flow model of valuation is most helpful for firms that:

21) \_\_\_\_\_\_

A) have similar investment opportunities as other firms in their industry.   
 B) pay steady dividends and have excess cash.  
 C) are financially sound and thus pay constant, high dividends.  
 D) do not pay dividends, but do have external financing needs.  
 E) are projected to grow at a constant, steady pace while increasing their dividends.

**22)** If the issuer of a stock receives the proceeds from the sale of that stock, then the sale:

22) \_\_\_\_\_\_

A) had to have occurred on the floor of an exchange.   
 B) was a secondary market transaction.  
 C) was transacted on the NYSE.  
 D) was conducted in the primary market.  
 E) had to have been a limit order.

**23)** Of the following statements, which one is correct?

23) \_\_\_\_\_\_

A) Investors earn a return called a spread.   
 B) Dealers pay a fee, called the spread, to brokers.  
 C) Investors sell securities at the ask price.  
 D) Dealers buy securities at the bid price.  
 E) Brokers maintain an inventory of securities.

**24)** Supplemental liquidity providers (SLPs):

24) \_\_\_\_\_\_

A) act as floor brokers.   
 B) only represent stock purchasers.  
 C) seek the best price for their customers.  
 D) do *not* operate on the floor of a stock exchange.  
 E) have been replaced by designated market makers.

**25)** A stop order to sell at $32 will be executed:

25) \_\_\_\_\_\_

A) at a price of $32 at the end of the day on which the order was placed.   
 B) at $32 following the first trade with a price below $32.  
 C) as a market order once a trade occurs at a price of $32 or less.  
 D) immediately at a price of $32.  
 E) as a market order once a trade occurs at a price of $32 or higher.

**26)** A limit order to buy:

26) \_\_\_\_\_\_

A) guarantees the quantity purchased but not the price.   
 B) guarantees both the purchase price and the order fulfillment.  
 C) is executed only if the purchase price is less than the limit amount.  
 D) guarantees the purchase price but not the order execution.  
 E) will be executed either at the limit price or at the end-of-day price.

**27)** A day order to sell at a limit of $46 will be:

27) \_\_\_\_\_\_

A) executed at the next available price once a trade occurs at the limit price.   
 B) cancelled at the end of the day if not executed.  
 C) executed only if the purchase price is less than the limit amount.  
 D) executed at the end-of-day price if $46 has not been obtained.  
 E) transferred to a market order on the following day if not executed at the limit price.

**28)** Nasdaq:

28) \_\_\_\_\_\_

A) has a single trading floor located in Chicago, Illinois.   
 B) has multiple trading floors.  
 C) is a designated market maker system.  
 D) has a multiple market maker system.  
 E) is closed to all electronic communications networks (ECNs).

**29)** You recently contacted a brokerage firm and purchased 100 shares of stock. The brokerage firm acquired the shares for you by making a deal with a floor broker who represented one of the stock issuer’s shareholders. Given this, you know your purchase:

29) \_\_\_\_\_\_

A) was conducted in the secondary market.   
 B) occurred over-the-counter.  
 C) was for shares of a stock listed on Nasdaq.  
 D) occurred on an ECN.  
 E) involved the issuance of new shares.

**30)** Inside quotes on a stock are:

30) \_\_\_\_\_\_

A) the prices available only to corporate insiders.   
 B) prices obtained only on the actual floor of an exchange.  
 C) prices available only to stock market employees.  
 D) the lowest asked quote and the highest bid quote.  
 E) prices paid that lie between yesterday’s closing price and today’s closing price.

**31)** Teahna’s announced that its next annual dividend will be $1.80 per share and all future dividends will increase by 4 percent annually. What is the maximum amount you should pay to purchase a share of this stock if you require a rate of return of 11 percent?

31) \_\_\_\_\_\_

A) $26.74   
 B) $28.54  
 C) $17.02  
 D) $25.71  
 E) $16.36

**32)** How much are you willing to pay for one share of stock if the company just paid an annual dividend of $2.57, the dividends increase by 4.8 percent annually, and you require a rate of return of 17.6 percent?

32) \_\_\_\_\_\_

A) $23.61   
 B) $15.30  
 C) $21.04  
 D) $14.60  
 E) $20.08

**33)** Akinnibo sun Motors recently paid a per share dividend of $1.97. Dividends are expected to increase by 2.8 percent annually. What is one share of this stock worth today if the appropriate discount rate is 17 percent?

33) \_\_\_\_\_\_

A) $13.87   
 B) $14.26  
 C) $11.59  
 D) $13.87  
 E) $16.23

**34)** The stock of Sharkey Enterprises typically provides an average rate of return of 12.4 percent. The firm’s next annual dividend is projected at $.89 with future increases of 2.1 percent per year. What price should you pay for this stock if you are satisfied with the firm’s average rate of return?

34) \_\_\_\_\_\_

A) $8.64   
 B) $7.18  
 C) $8.82  
 D) $9.71  
 E) $7.73

**35)** Moreno Corporation common stock pays a constant annual dividend of $4.50 per share. What is the value of this stock at a discount rate of 14.2 percent?

35) \_\_\_\_\_\_

A) $36.19   
 B) $61.67  
 C) $54.00  
 D) $45.00  
 E) $31.69

**36)** Williams Builders is expected to pay annual dividends of $1.40, $1.75, and $2.00 per share over the next three years, respectively. After that, the dividend is expected to remain constant. What is the current value per share at a discount rate of 14 percent?

36) \_\_\_\_\_\_

A) $12.22   
 B) $13.57  
 C) $13.08  
 D) $12.82  
 E) $13.39

**37)** Jafferali, Incorporated, common stock sells for $21 per share and pays an annual dividend that increases by 5 percent each year. The rate of return on this stock is 9 percent. What is the amount of the last dividend paid?

37) \_\_\_\_\_\_

A) $.77   
 B) $.80  
 C) $.84  
 D) $.87  
 E) $.88

**38)** The common stock of Energy Saver pays an annual dividend that is expected to increase by 4 percent annually. The stock commands a market rate of return of 12 percent and sells for $58.25 per share. What is the expected amount of the next dividend to be paid?

38) \_\_\_\_\_\_

A) $4.87   
 B) $5.02  
 C) $5.10  
 D) $4.66  
 E) $4.33

**39)** The Reading Company has adopted a policy of increasing the annual dividend on its common stock at a constant rate of 3 percent annually. The last dividend it paid (*T* = 0) was $.90 per share. What will be the company’s dividend six years from now?

39) \_\_\_\_\_\_

A) $.90   
 B) $.93  
 C) $1.04  
 D) $1.07  
 E) $1.11

**40)** You have decided to purchase shares of Sohne, Incorporated, but expect to earn a 15.4 percent rate of return to compensate for the perceived risk of such ownership. What is the maximum price you should pay per share if the company pays a constant $5.25 annual dividend per share?

40) \_\_\_\_\_\_

A) $52.50   
 B) $63.00  
 C) $39.34  
 D) $72.70  
 E) $34.09

**41)** Dasgupta common stock sells for $23.43 per share at a market rate of return of 11.65 percent. The company just paid its annual dividend of $1.20. What is the dividend growth rate?

41) \_\_\_\_\_\_

A) 5.87%   
 B) 6.43%  
 C) 5.91%  
 D) 6.07%  
 E) 6.21%

**42)** Kalamarides Enterprises will pay an annual dividend of $2.08 per share on its common stock next year. The firm just paid a dividend of $2.00 per share and adheres to a constant rate of growth dividend policy. What will one share of S&P common stock be worth ten years from now if the applicable discount rate is 8 percent?

42) \_\_\_\_\_\_

A) $71.16   
 B) $74.01  
 C) $76.97  
 D) $80.05  
 E) $83.25

**43)** The Merriweather Company just announced that it will pay a dividend next year of $1.50. The company will then increase its dividend by 15 percent per year for three years after which it will maintain a constant 5 percent dividend growth rate. What is one share worth today at a required rate of return of 11 percent?

43) \_\_\_\_\_\_

A) $29.40   
 B) $45.63  
 C) $32.00  
 D) $28.57  
 E) $34.90

**44)** Patel & Valdez is planning on increasing its annual dividend by 20 percent next year and then decreasing the growth rate to a constant 5 percent per year. The company just paid its annual dividend in the amount of $1 per share. What is the current value of a share if the required rate of return is 14 percent?

44) \_\_\_\_\_\_

A) $13.28   
 B) $13.42  
 C) $13.33  
 D) $13.19  
 E) $13.24

**45)** Mesa Homes just paid a per share annual dividend of $1.50. The company is planning on paying $1.62, $1.68, $1.75, and $1.80 per share over the next four years, respectively. After that, the dividend will be a constant $2.00 per share per year. What is the market price of this stock if the market rate of return is 15 percent?

45) \_\_\_\_\_\_

A) $6.00   
 B) $8.49  
 C) $12.48  
 D) $11.57  
 E) $9.09

**46)** Choi Citrus is going to pay annual dividends of $.35, $.50, and $.80 per share over the next three years, respectively. After that, the dividend will be $1.25 per share indefinitely. What is this stock worth today at a discount rate of 13.45 percent?

46) \_\_\_\_\_\_

A) $6.20   
 B) $9.48  
 C) $10.88  
 D) $7.61  
 E) $5.06

**47)** Duran Logistics announced its next annual dividend will be $.40 per share. The following dividends will be $.60, and $.75 per share annually for the following two years, respectively. After that, dividends are projected to increase by 3.5 percent per year. How much is one share of this stock worth at a rate of return of 12 percent?

47) \_\_\_\_\_\_

A) $8.45   
 B) $6.84  
 C) $7.87  
 D) $8.06  
 E) $7.03

**48)** Fong Medical Equipment recently paid $1.10 as its annual dividend. Future dividends are projected at $1.06, $1.02, and $1.00 over the next three years, respectively. After that, the dividend is expected to decrease by 2 percent annually. What is one share of this stock worth at a rate of return of 17 percent?

48) \_\_\_\_\_\_

A) $5.62   
 B) $5.50  
 C) $5.21  
 D) $5.33  
 E) $5.98

**49)** Davey Mortorsport just paid a dividend of $1.03 per share. The company announced today that it expects to pay $.90 per share next year and a final liquidating dividend of $18.44 in two years. What is one share of this stock worth today if the required rate of return is 16 percent?

49) \_\_\_\_\_\_

A) $14.94   
 B) $14.48  
 C) $13.23  
 D) $13.44  
 E) $13.60

**50)** A company plans to pay an annual dividend of $.30 per share for two years commencing two years from today. After that time, a constant $1 per share annual dividend is planned indefinitely. Given a required return of 14 percent, what is the current value of this stock?

50) \_\_\_\_\_\_

A) $4.82   
 B) $5.25  
 C) $5.39  
 D) $5.46  
 E) $5.58

**51)** Rangel Corporation paid an annual dividend of $2.50 last year. The company has announced plans to lower the dividend by $.50 per year. Once the dividend amount becomes zero, the company will cease all dividends permanently. The required rate of return is 14.5 percent. What is one share of this stock worth?

51) \_\_\_\_\_\_

A) $3.85   
 B) $3.48  
 C) $4.87  
 D) $4.13  
 E) $4.39

**52)** Wholesome Foods paid its first annual dividend yesterday in the amount of $.28 per share. The company plans to double each annual dividend payment for the next three years. After that time, it plans to pay a constant $2.25 per share indefinitely. What is one share of this stock worth today if the market rate of return on similar securities is 11.5 percent?

52) \_\_\_\_\_\_

A) $19.41   
 B) $18.40  
 C) $17.46  
 D) $16.93  
 E) $17.13

**53)** Garnet Aviation just paid its annual dividend of $.60 per share. The projected dividends for the next five years are $.30, $.50, $.75, $1.00, and $1.20, respectively. After that time, the dividends will be held constant at $1.40 per share. What is this stock worth today at a discount rate of 14 percent?

53) \_\_\_\_\_\_

A) $7.56   
 B) $10.60  
 C) $8.02  
 D) $9.28  
 E) $9.43

**54)** Plateau, Incorporated, pays a dividend of $2.00 per share every other year with the last payment having just been paid. Five years from now, the company is repurchasing all of the outstanding shares at a price of $50 per share. What is the current value of one share at a discount rate of 12 percent?

54) \_\_\_\_\_\_

A) $34.03   
 B) $31.24  
 C) $33.78  
 D) $27.89  
 E) $34.99

**55)** Yesterday, Railway Tours paid its annual dividend of $1.20 per share. The company has been reducing the dividends by 10 percent each year. What is the value of this stock at a discount rate of 13 percent?

55) \_\_\_\_\_\_

A) $4.70   
 B) $3.71  
 C) $8.31  
 D) $36.00  
 E) $27.00

**56)** Acorn Equity will reduce its annual dividend by 10 percent per year for the next two years. After that, it will maintain a constant dividend of $.70 per share. The company just paid a dividend of $1.80 per share. What is the value of this stock if the required rate of return is 13 percent?

56) \_\_\_\_\_\_

A) $6.99   
 B) $6.79  
 C) $8.22  
 D) $8.87  
 E) $7.62

**57)** What would be the maximum an investor should pay for the common stock of a firm that has no growth opportunities but pays a dividend of $3.55 per year? The required rate of return is 17 percent.

57) \_\_\_\_\_\_

A) $24.43   
 B) $49.84  
 C) $20.88  
 D) $35.50  
 E) $42.60

**58)** O’Connor Corporation will pay an annual dividend of $1.00 next year. The dividend will increase by 12 percent per year for the following two years before growing at 4 percent indefinitely thereafter. If the required rate of return is 10 percent, what is the stock's current value?

58) \_\_\_\_\_\_

A) $13.38   
 B) $14.05  
 C) $19.11  
 D) $9.80  
 E) $10.38

**59)** A company just paid an annual dividend of $.40 per share and plans to increase the dividend by 7 percent per year for the next 6 years and then increase it by 4 percent annually thereafter. What is the value of this stock at the end of Year 6 if the discount rate is 11 percent?

59) \_\_\_\_\_\_

A) $10.63   
 B) $8.92  
 C) $9.68  
 D) $10.21  
 E) $9.37

**60)** Richards Retailers just paid an annual dividend of $1.20 and increases its dividend by 2.5 percent annually. You would like to purchase 100 shares of stock in this firm but realize that you will not have the funds to do so for another three years. If you desire a rate of return of 10 percent, how much should you expect to pay for 100 shares when you can afford to buy this stock? Ignore trading costs.

60) \_\_\_\_\_\_

A) $1,640   
 B) $1,681  
 C) $1,723  
 D) $1,766  
 E) $1,810

**61)** Longshire just paid $1.50 as its annual dividend and increases its dividend by 2.5 percent each year. What will Longshire's stock price be in ten years at a discount rate of 12.25 percent?

61) \_\_\_\_\_\_

A) $19.46   
 B) $22.08  
 C) $20.19  
 D) $19.70  
 E) $21.50

**62)** Windle’s has a policy of increasing its annual dividend by 1.75 percent each year. How much will one share be worth five years from now if the required rate of return is 15 percent and the next dividend will be $3.40?

62) \_\_\_\_\_\_

A) $28.48   
 B) $27.99  
 C) $34.84  
 D) $28.60  
 E) $32.78

**63)** A stock pays a constant annual dividend and sells for $31.11 per share. If the dividend yield of this stock is 9 percent, what is the dividend amount?

63) \_\_\_\_\_\_

A) $1.40   
 B) $1.80  
 C) $2.20  
 D) $2.40  
 E) $2.80

**64)** The common stock of Jacey Home Store sells for $38.42 per share. The stock is expected to pay an annual dividend of $1.80 next year and increase that amount by 4 percent annually thereafter. What is the market rate of return on this stock?

64) \_\_\_\_\_\_

A) 9.04%   
 B) 9.13%  
 C) 8.69%  
 D) 9.22%  
 E) 8.36%

**65)** Hernandez Diving just paid an annual dividend of $2.20 and announced that all future dividends would be $2.25 per share indefinitely. What is your required rate of return if you are willing to pay $15.25 per share for this stock?

65) \_\_\_\_\_\_

A) 14.75%   
 B) 16.07%  
 C) 13.88%  
 D) 13.67%  
 E) 14.50%

**66)** Cadar Security recently paid an annual dividend of $6.60 on its common stock. This dividend increases by 3 percent per year. What is the market rate of return if the stock is selling for $42.21 per share?

66) \_\_\_\_\_\_

A) 16.40%   
 B) 15.57%  
 C) 18.64%  
 D) 19.11%  
 E) 15.64%

**67)** Javelina Corporation just announced its next annual dividend will be $3.43 per share and all future dividends will increase by 3.8 percent annually. What is the market rate of return if this stock is currently selling for $44.73 per share?

67) \_\_\_\_\_\_

A) 11.47%   
 B) 7.38%  
 C) 7.96%  
 D) 11.76%  
 E) 11.04%

**68)** Shares of Ramirez Corporation offer an expected total return of 12 percent. The dividend is increasing at a constant 3.25 percent per year. What is the value of the next dividend if the stock is selling at $28 per share?

68) \_\_\_\_\_\_

A) $2.50   
 B) $2.45  
 C) $2.78  
 D) $2.34  
 E) $2.10

**69)** A stock had a total return of 19.25 percent last year. The dividend amount was $.65 per share which equated to a dividend yield of 3.1 percent. What is the dividend growth rate?

69) \_\_\_\_\_\_

A) 22.35%   
 B) 19.23%  
 C) 19.90%  
 D) 18.60%  
 E) 16.15%

**70)** The Marcus Company had net earnings of $127,000 this past year of which $46,200 was paid out in dividends. The company's equity was $1,587,500. Lory has 200,000 shares outstanding with a current market price of $11.63 per share. Both the number of shares and the dividend payout ratio are constant. What is the required rate of return if the growth rate is 5.6 percent?

70) \_\_\_\_\_\_

A) 8.42%   
 B) 6.67%  
 C) 7.70%  
 D) 7.39%  
 E) 8.24%

**71)** The stock of Manca Development sells for $32.37 per share. The firm just paid an annual dividend of $5.85 per share and has a long-established record of increasing its dividend by a constant 2.4 percent annually. What is the market rate of return on this stock?

71) \_\_\_\_\_\_

A) 20.47%   
 B) 20.91%  
 C) 18.07%  
 D) 18.51%  
 E) 14.86%

**72)** Schweitz has a fixed dividend payout ratio of 40 percent, current net income of $5,200, total assets of $56,400, and total equity of $21,600. Given this information, what estimate would you use as the dividend growth rate if the last dividend paid was $.464 per share?

72) \_\_\_\_\_\_

A) 9.63%   
 B) 3.69%  
 C) 12.84%  
 D) 8.61%  
 E) 14.44%

**73)** The dividend yield on Estrella common stock is 5.2 percent. The company just paid a $2.10 dividend. The rumor is that the dividend will be $2.30 next year. The dividend growth rate is expected to remain constant at the current level. What is the required rate of return on Estrella’s stock?

73) \_\_\_\_\_\_

A) 14.72%   
 B) 12.31%  
 C) 18.29%  
 D) 20.01%  
 E) 24.21%

**74)** Triangle Supply has a return on equity of 11.6 percent, a profit margin of 6.2 percent, and a payout ratio of 35 percent. What is the firm's growth rate?

74) \_\_\_\_\_\_

A) 13.74%   
 B) 7.54%  
 C) 11.09%  
 D) 8.77%  
 E) 9.71%

**75)** Arrington stock is currently valued at $28.40 per share. The firm had earnings per share of $1.86 last year and projects earnings of $2.09 per share for next year. What is the trailing twelve month price-earnings ratio?

75) \_\_\_\_\_\_

A) 13.59   
 B) 14.38  
 C) 12.84  
 D) 16.67  
 E) 15.27

**76)** The stock of Ravenn’s Nest is currently valued at $32.70 per share. The firm had earnings per share of $1.88 last year and projects earnings of $2.10 per share for next year. What is the forward price-earnings ratio?

76) \_\_\_\_\_\_

A) 15.57   
 B) 14.38  
 C) 17.39  
 D) 16.43  
 E) 15.06

**77)** Outbound Trading has annual revenue of $387,000 with costs of $216,400. Depreciation is $48,900 and the tax rate is 21 percent. The firm has debt outstanding with a market value of $182,000 along with 9,500 shares of stock that is selling at $67 per share. The firm has $48,000 of cash of which $29,500 is needed to run the business. What is the firm's EV/EBITDA ratio?

77) \_\_\_\_\_\_

A) 5.57   
 B) 4.69  
 C) 3.39  
 D) 3.93  
 E) 6.20

**78)** Alcala Imports has annual revenue of $506,000 with costs of $369,400. Depreciation is $64,900 and the tax rate is 21 percent. The firm has debt outstanding with a market value of $240,000 along with 7,500 shares of stock that is valued at $87 per share. The firm has $51,200 of cash, all of which is needed to run the business. What is the firm’s EV/EBITDA ratio?

78) \_\_\_\_\_\_

A) 6.37   
 B) 6.53  
 C) 5.39  
 D) 6.15  
 E) 6.28

**79)** Gardner Hospitals has total revenue of $418,300, earnings before interest and taxes of $102,600, depreciation of $59,200, and a tax rate of 21 percent. The firm is all-equity financed with 15,000 shares outstanding at a book value of $38.03 per share and a price-to-book ratio of 3.2. What is the firm's EV/EBITDA ratio if the firm has excess cash of $49,300?

79) \_\_\_\_\_\_

A) 9.67   
 B) 11.28  
 C) 8.39  
 D) 9.15  
 E) 10.98

**80)** Hedge Corporation is expected to have annual free cash flow of $62,000, $65,400, and $68,900 for the next three years, respectively. After that, the free cash flow is expected to increase at a constant rate of 2 percent per year. At a discount rate of 14.5 percent, what is the present value of this firm?

80) \_\_\_\_\_\_

A) $469,118   
 B) $603,509  
 C) $577,088  
 D) $524,467  
 E) $497,364

**81)** Nighthawk Theaters has 15,000 shares of stock outstanding and projected annual free cash flows of $48,200, $57,900, $71,300, and $72,500 for the next four years, respectively. After that, the cash flows are expected to increase at a constant annual rate of 1.6 percent. What is the current value per share of stock at a discount rate of 15.4 percent?

81) \_\_\_\_\_\_

A) $31.57   
 B) $29.06  
 C) $28.99  
 D) $26.14  
 E) $34.08

**82)** You want a seat on the board of directors of Four Keys, Incorporated. The company has 240,000 shares of stock outstanding and the stock sells for $79 per share. There are currently 4 seats up for election. The company uses straight voting. How many shares do you need to guarantee that you will be elected to the board?

82) \_\_\_\_\_\_

A) 84,001 shares   
 B) 120,001 shares  
 C) 60,000 shares  
 D) 48,001 shares  
 E) 108,001 shares

**83)** You want a seat on the board of directors of Red Cow, Incorporated. The company has 290,000 shares of stock outstanding and the stock sells for $67 per share. There are currently 5 seats up for election. The company uses straight voting. How much will it cost you to guarantee that you will be elected to the board?

83) \_\_\_\_\_\_

A) $3,886,000   
 B) $3,238,400  
 C) $6,476,734  
 D) $8,743,560  
 E) $9,715,067

**84)** You want a seat on the board of directors of Four Keys, Incorporated. The company has 270,000 shares of stock outstanding and the stock sells for $73 per share. There are currently 3 seats up for election. If the company uses cumulative voting, how many shares do you need to guarantee that you will be elected to the board?

84) \_\_\_\_\_\_

A) 90,000 shares   
 B) 101,251 shares  
 C) 60,751 shares  
 D) 135,001 shares  
 E) 67,501 shares

**85)** You want a seat on the board of directors of Zeph, Incorporated. The company has 275,000 shares of stock outstanding and the stock sells for $70 per share. There are currently 4 seats up for election. If the company uses cumulative voting, how much will it cost you to guarantee that you will be elected to the board?

85) \_\_\_\_\_\_

A) $11,550,084   
 B) $5,775,000  
 C) $4,158,076  
 D) $8,085,084  
 E) $3,850,070

**86)** Michael's, Incorporated, just paid $2.10 to its shareholders as the annual dividend. Simultaneously, the company announced that future dividends will be increasing by 4.6 percent. If you require a rate of return of 8.8 percent, how much are you willing to pay today to purchase one share of the company's stock?

86) \_\_\_\_\_\_

A) $52.30   
 B) $26.15  
 C) $24.96  
 D) $16.39  
 E) $54.40

**87)** Stoneheart Group is expected to pay a dividend of $2.85 next year. The company's dividend growth rate is expected to be 3.9 percent indefinitely and investors require a return of 10.1 percent on the company's stock. What is the stock price?

87) \_\_\_\_\_\_

A) $43.67   
 B) $45.97  
 C) $47.76  
 D) $28.22  
 E) $41.37

**88)** You are considering purchasing stock in Canyon Echo. You feel the company will increase its dividend at 4.6 percent indefinitely. The company just paid a dividend of $3.41 and you feel that the required return on the stock is 11 percent. What is the price per share of the company's stock?

88) \_\_\_\_\_\_

A) $55.73   
 B) $31.05  
 C) $50.16  
 D) $53.28  
 E) $52.95

**89)** Symon's Suppers Company has announced that it will pay a dividend of $4.37 per share one year from today. Additionally, the company expects to increase its dividend by 4.3 percent annually. The required return on the company's stock is 11.3 percent. What is the current share price?

89) \_\_\_\_\_\_

A) $58.60   
 B) $38.67  
 C) $59.31  
 D) $65.11  
 E) $62.43

**90)** A stock currently sells for $58. The dividend yield is 3.6 percent and the dividend growth rate is 4.9 percent. What is the amount of the dividend that was just paid?

90) \_\_\_\_\_\_

A) $1.88   
 B) $1.99  
 C) $1.74  
 D) $2.09  
 E) $1.89

**91)** A stock currently sells for $53. The dividend yield is 3.2 percent and the dividend growth rate is 4.5 percent. What is the amount of the dividend to be paid in one year?

91) \_\_\_\_\_\_

A) $1.54   
 B) $1.42  
 C) $1.70  
 D) $1.62  
 E) $1.58

**92)** A stock is expected to maintain a constant dividend growth rate of 4.1 percent indefinitely. If the stock has a dividend yield of 5.4 percent, what is the required return on the stock?

92) \_\_\_\_\_\_

A) 8.9%   
 B) 9.5%  
 C) 7.9%  
 D) 8.6%  
 E) 9%

**93)** A stock just paid a dividend of $3.93 and is expected to maintain a constant dividend growth rate of 4.8 percent indefinitely. If the current stock price is $64, what is the required return on the stock?

93) \_\_\_\_\_\_

A) 10.94%   
 B) 11.24%  
 C) 9.57%  
 D) 10.39%  
 E) 10.49%

**94)** CDB stock is currently priced at $87. The company will pay a dividend of $5.77 next year and investors require a return of 11.5 percent on similar stocks. What is the dividend growth rate on this stock?

94) \_\_\_\_\_\_

A) 4.87%   
 B) 4.54%  
 C) 5.80%  
 D) 6.63%  
 E) 4.62%

**95)** Kindzi Company has preferred stock outstanding that is expected to pay an annual dividend of $3.27 every year in perpetuity. If the required return is 3.54 percent, what is the current stock price?

95) \_\_\_\_\_\_

A) $95.64   
 B) $83.14  
 C) $89.21  
 D) $92.37  
 E) $86.21

**96)** Voltanis Corporation has preferred stock outstanding that will pay an annual dividend of $3.51 every year in perpetuity. If the stock currently sells for $96.61 per share, what is the required return?

96) \_\_\_\_\_\_

A) 2.75%   
 B) 3.40%  
 C) 3.63%  
 D) 3.27%  
 E) 4.15%

**97)** Stana, Incorporated, has preferred stock outstanding that sells for $97.46 per share. If the required return is 3.78 percent, what is the annual dividend?

97) \_\_\_\_\_\_

A) $3.45   
 B) $3.82  
 C) $3.32  
 D) $3.55  
 E) $3.68

**98)** McKerley Corporation has preferred stock outstanding that will pay an annual dividend of $4.30 per share with the first dividend exactly 12 years from today. If the required return is 3.72 percent, what is the current price of the stock?

98) \_\_\_\_\_\_

A) $74.57   
 B) $111.45  
 C) $71.90  
 D) $77.35  
 E) $115.59

**99)** Asonia Company will pay a dividend of $3.80, $7.90, $10.75, and $12.50 per share for each of the next four years, respectively. The company will then close its doors. If investors require a return of10.5 percent on the company's stock, what is the stock price?

99) \_\_\_\_\_\_

A) $31.32   
 B) $32.96  
 C) $29.08  
 D) $26.26  
 E) $38.24

**100)** Knightmare, Incorporated, will pay a dividend of $7.05, $11.15, and$14.35 per share for each of the next three years, respectively. The company will then close its doors. Investors require a return of11.2 percent on the company's stock. What is the current stock price?

100) \_\_\_\_\_\_

A) $25.79   
 B) $28.61  
 C) $30.81  
 D) $32.54  
 E) $38.10

**101)** Leslie's Unique Clothing Stores offers a common stock that pays an annual dividend of $3.40 a share. The company has promised to maintain a constant dividend. How much are you willing to pay for one share of this stock if you want to earn a return of 10.50 percent on your equity investments?

101) \_\_\_\_\_\_

A) $3.09   
 B) $32.38  
 C) $7.10  
 D) $13.90  
 E) $35.70

**102)** The common stock of Eddie's Engines, Incorporated, sells for $38.03 a share. The stock is expected to pay a dividend of $4.00 per share next year. Eddie's has established a pattern of increasing their dividends by 6.1 percent annually and expects to continue doing so. What is the market rate of return on this stock?

102) \_\_\_\_\_\_

A) 10.52%   
 B) 7.16%  
 C) 16.62%  
 D) 9.51%  
 E) 20.04%

**103)** Shares of common stock of the Samson Company offer an expected total return of 15.80 percent. The dividend is increasing at a constant 5.00 percent per year. The dividend yield must be:

103) \_\_\_\_\_\_

A) 10.80%   
 B) 3.16%  
 C) 15.80%  
 D) 5.00%  
 E) 20.80%

**104)** Weisbro and Sons common stock sells for $51 a share and pays an annual dividend that increases by 4 percent annually. The market rate of return on this stock is 9.7 percent. What is the amount of the last dividend paid by Weisbro and Sons?

104) \_\_\_\_\_\_

A) $3.03   
 B) $2.80  
 C) $4.76  
 D) $1.96  
 E) $2.76

**105)** The Bell Weather Company is a new firm in a rapidly growing industry. The company is planning on increasing its annual dividend by 17 percent a year for the next 4 years and then decreasing the growth rate to 6 percent per year. The company just paid its annual dividend in the amount of $2.40 per share. What is the current value of one share of this stock if the required rate of return is 7.90 percent?

105) \_\_\_\_\_\_

A) $199.31   
 B) $196.91  
 C) $253.30  
 D) $185.11  
 E) $250.90

**106)** NU YU announced today that it will begin paying annual dividends. The first dividend will be paid next year in the amount of $.65 a share. The following dividends will be $.70, $.85, and $1.15 a share annually for the following three years, respectively. After that, dividends are projected to increase by 4.2 percent per year. How much are you willing to pay today to buy one share of this stock if your desired rate of return is 16 percent?

106) \_\_\_\_\_\_

A) $1.97   
 B) $10.58  
 C) $10.81  
 D) $10.16  
 E) $7.87

**107)** The Red Bud Company pays a constant dividend of $1.50 a share. The company announced today that it will continue to do this for another 2 years after which time they will discontinue paying dividends permanently. What is one share of this stock worth today if the required rate of return is 7.1 percent?

107) \_\_\_\_\_\_

A) $4.21   
 B) $1.61  
 C) $1.66  
 D) $3.00  
 E) $2.71

**108)** Railway Cabooses just paid its annual dividend of $2.10 per share. The company has been reducing the dividends by 11.5 percent each year. How much are you willing to pay today to purchase stock in this company if your required rate of return is 13 percent?

108) \_\_\_\_\_\_

A) $9.56   
 B) $10.25  
 C) $7.59  
 D) $8.02  
 E) $18.26

**109)** Keidis Industries will pay a dividend of $4.55, $5.65, and $6.85 per share for each of the next three years, respectively. In four years, you believe that the company will be acquired for $63.00 per share. The return on similar stocks is 9.8 percent. What is the current stock price?

109) \_\_\_\_\_\_

A) $55.38   
 B) $62.57  
 C) $57.35  
 D) $59.64  
 E) $71.91

**110)** Braxton's Cleaning Company stock is selling for $34.75 per share based on a required return of 10.4 percent. What is the the next annual dividend if the growth rate in dividends is expected to be 3.9 percent indefinitely?

110) \_\_\_\_\_\_

A) $2.17   
 B) $2.26  
 C) $2.35  
 D) $2.05  
 E) $2.49

**111)** The stock in Up-Towne Movers is selling for $43.40 per share. Investors have a required return of 8.9 percent and expect the dividends to grow at 3.1 percent indefinitely. What was the dividend the company just paid?

111) \_\_\_\_\_\_

A) $2.52   
 B) $2.74  
 C) $2.44  
 D) $2.38  
 E) $2.24

**112)** Santa Klaus Toys just paid a dividend of $2.00 per share. The required return is 11 percent and the perpetual dividend growth rate is 2.9 percent. What price should this stock sell for five years from today?

112) \_\_\_\_\_\_

A) $29.31   
 B) $30.16  
 C) $27.68  
 D) $28.49  
 E) $24.69

**113)** This morning you purchased a stock that just paid an annual dividend of $2.70 per share. You require a return of 10.8 percent and the dividend will increase at an annual growth rate of 3.6 percent. If you sell this stock in three years, what will your capital gain be?

113) \_\_\_\_\_\_

A) $5.70   
 B) $3.97  
 C) $1.40  
 D) $4.35  
 E) $3.60

**114)** The common stock of Sweet Treats is selling for $46.55 per share. The company is expected to have an annual dividend increase of 2.8 percent indefinitely and pay a dividend of $3.40 in one year. What is the total return on this stock?

114) \_\_\_\_\_\_

A) 10.10%   
 B) 11.34%  
 C) 10.72%  
 D) 11.34%  
 E) 10.31%

**115)** Brickhouse is expected to pay a dividend of $2.85 and $2.34 over the next two years, respectively. After that, the company is expected to increase its annual dividend at 3.3 percent. What is the stock price today if the required return is 10.7 percent?

115) \_\_\_\_\_\_

A) $35.55   
 B) $29.22  
 C) $33.36  
 D) $26.64  
 E) $31.13

**116)** Red Sun Rising just paid a dividend of $1.98 per share. The company said that it will increase the dividend by 20 percent and 15 over the next two years, respectively. After that, the company is expected to increase its annual dividend at 3 percent. If the required return is 10 percent, what is the stock price today?

116) \_\_\_\_\_\_

A) $35.39   
 B) $37.65  
 C) $33.23  
 D) $36.52  
 E) $15.00

**117)** General Importers announced that it will pay a dividend of $3.65 per share one year from today. After that, the company expects a slowdown in its business and will not pay a dividend for the next 4 years. Then, 6 years from today, the company will begin paying an annual dividend of $1.75 forever. The required return is 11.4 percent. What is the price of the stock today?

117) \_\_\_\_\_\_

A) $11.31   
 B) $15.35  
 C) $3.28  
 D) $12.22  
 E) $13.24

**118)** New Gadgets, Incorporated, currently pays no dividend but is expected to pay its first annual dividend of $4.90 per share exactly 7 years from today. After that, the dividends are expected to grow at 3.5 percent forever. If the required return is 11.3 percent, what is the price of the stock today?

118) \_\_\_\_\_\_

A) $62.82   
 B) $51.10  
 C) $33.05  
 D) $38.55  
 E) $29.69

**119)** For the past six years, the stock price of Slippery Rock Mining has been increasing at a rate of 6 percent per year. Currently, the stock is selling for $69 per share and has a required return of 8.7 percent. What is the dividend yield?

119) \_\_\_\_\_\_

A) 5.0%   
 B) 6.0%  
 C) 6.6%  
 D) 5.3%  
 E) 2.7%

**120)** Graphical Designs is offering 5-5 preferred stock. The stock will pay an annual dividend of $5 with the first dividend payment occurring 5 years from today. The required return on this stock is 4.35 percent. What is the price of the stock today?

120) \_\_\_\_\_\_

A) $92.90   
 B) $96.94  
 C) $89.03  
 D) $114.94  
 E) $90.96

**121)** Mariota Corporation just paid a dividend of $3.25 per share on its stock. The dividend growth rate is expected to be 4.25 forever and investors require a return of 11.5 percent on this stock. What will the stock price be in 7 years?

121) \_\_\_\_\_\_

A) $59.99   
 B) $62.54  
 C) $39.43  
 D) $29.19  
 E) $56.09

**122)** Sankey Company has earnings per share of $3.35. The benchmark PE is 17.6 times. What stock price would you consider appropriate?

122) \_\_\_\_\_\_

A) $20.95   
 B) $55.75  
 C) $50.44  
 D) $52.54  
 E) $58.96

**123)** Flex Company just paid total dividends of $525,000 and reported additions to retained earnings of $1,575,000. The company has 495,000 shares of stock outstanding and a benchmark PE of 15.1 times. What stock price would you consider appropriate?

123) \_\_\_\_\_\_

A) $48.05   
 B) $57.65  
 C) $60.86  
 D) $16.02  
 E) $64.06

**124)** Gnomes R Us just paid a dividend of $1.79 per share. The company has a dividend payout ratio of 60 percent. If the PE ratio is 15.8 times, what is the stock price?

124) \_\_\_\_\_\_

A) $58.92   
 B) $16.97  
 C) $70.71  
 D) $28.28  
 E) $47.14

**125)** Ghost Riders Company has an EPS of $1.69 that is expected to grow at 8.9 percent per year. If the PE ratio is 19.55 times, what is the projected stock price in 8 years?

125) \_\_\_\_\_\_

A) $60.01   
 B) $68.26  
 C) $56.60  
 D) $65.35  
 E) $71.17

**126)** Fowler is expected to pay a dividend of $1.53 one year from today and $1.68 two years from today. The company has a dividend payout ratio of 45 percent and the PE ratio is 17.55 times. If the required return on the company's stock is 10.5 percent, what is the current stock price?

126) \_\_\_\_\_\_

A) $53.66   
 B) $56.42  
 C) $25.53  
 D) $58.68  
 E) $46.66

**127)** The Ronnie Company has sales per share of $26.03. If the PS ratio is 2.11 times, what is the stock price?

127) \_\_\_\_\_\_

A) $12.35   
 B) $11.85  
 C) $58.53  
 D) $54.92  
 E) $48.01

**128)** Blitz Corporation had total sales of $3,450,000 last year and has 117,000 shares of stock outstanding. The benchmark PS is 1.82 times. What stock price would you consider appropriate?

128) \_\_\_\_\_\_

A) $53.67   
 B) $42.93  
 C) $16.20  
 D) $48.30  
 E) $50.09

**129)** Silky Smooth has an EPS of $3.41 per share and a profit margin of 7.9 percent. If the PS ratio is 2.04 times, what is the stock price?

129) \_\_\_\_\_\_

A) $26.94   
 B) $88.06  
 C) $99.06  
 D) $95.39  
 E) $102.73

**130)** Rise Above This has sales per share of $20.11 that is expected to grow at 4.7 percent per year. The PS ratio is 1.73 times. What is the projected stock price in 6 years?

130) \_\_\_\_\_\_

A) $41.43   
 B) $43.77  
 C) $47.98  
 D) $46.91  
 E) $45.83

**131)** Erna Company is expected to pay a dividend of $2.41 one year from today and $2.56 two years from today. The company's sales in two years are expected to be $15,450,000. The company has a PS ratio of 1.59 times, and 521,500 shares outstanding. If the required return on the company's stock is 10.4 percent, what is the current stock price?

131) \_\_\_\_\_\_

A) $4.28   
 B) $42.93  
 C) $5.52  
 D) $44.65  
 E) $38.65

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
132)** A number of publicly traded firms pay no dividends yet investors are willing to buy shares in these firms. How is this possible? Does this violate our basic principle of stock valuation? Explain.

**133)** What are the components of the required rate of return on a share of stock? Briefly explain each component.

**134)** Explain whether it is easier to find the required return on a publicly traded stock or a publicly traded bond, and explain why.

**135)** What is the difference between the EV/EBITDA ratio and the PE ratio?

**136)** Explain the differences between a market order, a limit order, and a stop order.

**Answer Key**Test name: Chapter 9

1) B

2) E

3) C

4) C

5) D

6) B

7) C

8) A

9) C

10) C

11) D

12) E

13) C

14) E

15) C

16) D

17) D

18) A

19) E

20) A

21) D

22) D

23) D

24) D

25) C

26) D

27) B

28) D

29) A

30) D

31) D

*P*0 = $1.80/(.11 − .04)  
 *P*0 = $25.71

32) C

*P*0 = [$2.57(1.048)]/(.176 − .048)  
 *P*0 = $21.04

33) B

*P*0 = [$1.97(1.028)]/(.17 − .028)  
 *P*0 = $14.26

34) A

*P*0 = $.89/(.124 − .021)  
 *P*0 = $8.64

35) E

*P*0 = $4.50/.142  
 *P*0 = $31.69

36) B

*P*0= $1.40/1.14 + $1.75/1.142 + ($2.00/.14)/1.142  
 *P*0= $13.57

37) B

$21 = *D*0(1.05)/(.09 − .05)  
 *D*0 = $.80

38) D

$58.25 = *D*1/(.12 − .04)  
 *D*1 = $4.66

39) D

*D*6 = $.90(1.036)  
 *D*6 = $1.07

40) E

*P =* $5.25/.154  
 *P* = $34.09

41) E

$23.43 = [$1.20(1 + *g*)]/(.1165 − *g*)  
 *g* = .0621, or 6.21%

42) C

*g* = ($2.08 − 2.00)/$2.00  
 *g* = .04  
   
 *P*10 = [$2.08(1.0410)]/(.08 − .04)  
 *P*10 = $76.97

43) B

*P*0 = $1.50/1.11+ [$1.50(1.15)]/1.112+ [$1.50(1.152)]/1.113 + [$1.50(1.153)]/1.114+ [$1.50(1.153)(1.05)]/(.11 − .05)]/1.114  
 *P*0 = $32.00

44) C

*P*0 = [$1(1.20)]/1.14 + [$1(1.20)(1.05)/(.14 − .05)]/1.14  
 *P*0 = $13.33

45) C

*P*0 = $1.62/1.15 + $1.68/1.152 + $1.75/1.153 + $1.80/1.154 + ($2.00/.15)/1.154  
 *P*0 = $12.48

46) D

*P*0 = $.35/1.1345 + $.50/1.13452 + $.80/1.13453 + ($1.25/.1345)/1.13453  
 *P*0 = $7.61

47) C

*P*0 = $.40/1.12 + $.60/1.122 + $.75/1.123 + [$.75(1.035)/(.12 − .035)]/1.123  
 *P*0 = $7.87

48) B

*P*0 = $1.06/1.17 + $1.02/1.172 + $1.00/1.173 + {$1.00[1 + (−.02)]}/(.17 − (−.02))/1.173   
 *P*0 = $5.50

49) B

*P*0 = $.90/1.16 + $18.44/1.162  
 *P*0 = $14.48

50) B

*P*0 = $.30/1.142 + $.30/1.143 + ($1/.14)/1.143  
 *P*0 = $5.25

51) A

*P*0 = $2.00/1.145 + $1.50/1.1452 + $1.00/1.1453 + $.50/1.1454  
 *P*0 = $3.85

52) E

Dividends for the next three years are $.56, $1.12, and $2.24.  
   
 *P*0 = $.56/1.115 + $1.12/1.1152 + $2.24/1.1153 + ($2.25/.115)/1.1153  
 *P*0 = $17.13

53) A

*P*0 = $.30/1.14 + $.50/1.142 + $.75/1.143 + $1.00/1.144 + $1.20/1.145 + ($1.40/.14)/1.145  
 *P*0 = $7.56

54) B

*P*0 = $2/1.122 + $2/1.124 + $50/1.125  
 *P*0 = $31.24

55) A

*P*0 = $1.20[1 + (−.10)]/[.13 − (−.10)]  
 *P*0 = $4.70

56) B

*P*0 = $1.80[1 + (−.10)]/1.13 + $1.80[1 + (−.10)]2/1.132 + ($.70/.13)/1.132  
 *P*0 = $6.79

57) C

*P*0 = $3.55/.17  
 *P*0 = $20.88

58) C

*P*0 = $1.00/1.10 + $1.12/1.102 + $1.122/1.103 + {[$1.122(1.04)]/(.10 − .04)}/1.103   
 *P*0 = $19.11

59) B

*P*6 = [$.40(1.076)(1.04)]/(.11 − .04)  
 *P*6 = $8.92

60) D

*P*3 = $1.20(1.0254)/(.10 − .025)  
 *P*3 = $17.66  
   
 Purchase cost = 100($17.66)  
 Purchase cost = $1,766

61) C

*P*10 = $1.50(1.02511)/(.1225 − .025)  
 *P*10 = $20.19

62) B

*P*5 = $3.40(1.01755)/(.15 − .0175)  
 *P*5 = $27.99

63) E

.09 = *D*/$31.11  
 *D* = $2.80

64) C

*R* = $1.80/$38.42 + .04  
 *R* = .0869, or 8.69%

65) A

*R* = $2.25/$15.25  
 *R* = .1475, or 14.75%

66) D

*R* = $6.60(1.03)/$42.21 + .03  
 *R* = .1911, or 19.11%

67) A

*R* = $3.43/$44.73 + .038  
 *R* = .1147, or 11.47%

68) B

.12 = *D*1/$28 + .0325  
 *D*1 = $2.45

69) E

*g* = .1925 − .031  
 *g* = .1615, or 16.15%

70) C

*R* = [($46,200/200,000)(1.056)]/$11.63 + .056  
 *R* = .0770, or 7.70%

71) B

*R* = $5.85(1.024)/$32.37 + .024  
 *R* = .2091, or 20.91%

72) E

*g* = (1 − .40)($5,200/$21,600)  
 *g* = .1444, or 14.44%

73) A

*R* = .052 + ($2.30 − 2.10)/$2.10  
 *R* = .1472, or 14.72%

74) B

*g* = .116(1 − .35)  
 *g* = .0754, or 7.54%

75) E

PETTM = $28.40/$1.86  
 PETTM = 15.27

76) A

PEForward = $32.70/$2.10  
 PEForward = 15.57

77) B

EV/EBITDA = [$182,000 + 9,500($67) − ($48,000 − 29,500)]/($387,000 − 216,400)  
 EV/EBITDA = 4.69

78) B

EV/EBITDA = [$240,000 + 7,500($87) − ($51,200 − 51,200)]/($506,000 − 369,400)  
 EV/EBITDA = 6.53

79) E

EV/EBITDA = [15,000($38.03)(3.2) − $49,300]/($102,600 + 59,200)  
 EV/EBITDA = 10.98

80) D

PV = $62,000/1.145 + $65,400/1.1452 + $68,900/1.1453 + [$68,900(1.02)/(.145 − .02)]/1.1453  
 PV = $524,467

81) A

*P*0 = {$48,200/1.154 + $57,900/1.1542 + $71,300/1.1543 + $72,500/1.1544 + [$72,500(1.016)/(.154 − .016)]/1.1544}/15,000  
 *P*0 = $31.57

82) B

Shares necessary = 240,000/2 + 1 = 120,001 shares

83) E

Shares necessary = 290,000/2 + 1 = 145,001 shares  
   
 Cost = 145,001($67) = $9,715,067

84) E

Shares necessary = {[1/(1 + 3)] × 270,000} + 1 = 67,501 shares

85) E

Shares necessary = {[1/(1 + 4)] × 275,000} + 1 = 55,001 shares  
   
 Cost = 55,001($70) = $3,850,070

86) A

P0 = [$2.10 × (1 + .046)]/(.088 − .046) = $52.30

87) B

P0 = $2.85/(.101 − .039) = $45.97

88) A

P0 = [$3.41 × (1 + .046)]/(.110 − .046) = $55.73

89) E

P0 = $4.37/(.113 − .043) = $62.43

90) B

D1 = .036($58) = $2.09  
   
 D0 = $2.09/(1 + .049) = $1.99

91) C

D1 = .032($53) = $1.70

92) B

Required return = 4.1% + 5.4% = 9.5%

93) B

Dividend yield = [$3.93(1 + .048)]/$64 = .0644, or 6.44%  
   
 Required return = 4.8% + 6.44% = 11.24%

94) A

Dividend yield = $5.77/$87 = 6.63%  
   
 Dividend growth rate = 11.50% − 6.63% = 4.87%

95) D

P0 = $3.27/.0354 = $92.37

96) C

*R* = $3.51/$96.61 = .0363, or 3.63%

97) E

D = $97.46 × .0378 = $3.68

98) D

P11 = $4.30/.0372 = $115.59  
   
 P0 = $115.59/(1 + .0372)11 = $77.35

99) D

P = $3.80/(1 + .105) + $7.90/(1 + .105)2 + $10.75/(1 + .105)3 + $12.50/(1 + .105)4  
 P = $26.26

100) A

P = $7.05/(1 + .112) + $11.15/(1 + .112)2 + $14.35/(1 + .112)3  
 P = $25.79

101) B

P = $3.40/.1050 = $32.38

102) C

*R* = $4.00/$38.03 + .061 = 0.1662, or 16.62%

103) A

Dividend yield = 15.80% − 5.00% = 10.80%

104) B

P0 = $51 = [D0 × (1 + .040)]/(.0970 − .040)  
   
 D0 = $2.80

105) B

P4 = ($2.40 × 1.174 × 1.06)/(0.079 − 0.06) = $250.90   
 P0 = ($2.40 × 1.17)/1.079 + ($2.40 × 1.172)/1.0792 + ($2.40 × 1.173)/1.0793 + ($2.40 × 1.174)/1.0794 + $250.90/1.0794 = $196.91

106) E

P4 = ($1.15 × 1.042)/(.16 – .042) = $10.16  
   
 P0 = $.65/1.16 + $.70/1.162 + $.85/1.163 + $1.15/1.164 + $10.16/1.164 = $7.87

107) E

P0 = $1.50/1.071 + $1.50/1.0712 = $2.71

108) C

P0 = [$2.10 × [1 + (− .115)]]/[.13 − (− .115)] = $7.59

109) C

P = $4.55/(1 + .098) + $5.65/(1 + .098)2 + $6.85/(1 + .098)3 + $63.00/(1 + .098)4  
 P = $57.35

110) B

$34.75 = D1/(.1040 − .0390)  
 D1= $2.26

111) C

$43.40 = D1/(.0890 − .0310)  
 D1 = $2.52  
   
 D0 = $2.52/(1 + .0310)  
 D0 = $2.44

112) A

P = [$2.00(1 + .029)6]/(.110 − .029)  
 P = $29.31

113) D

P0 = [$2.70(1 + .036)]/(.108 − .036) = $38.85  
   
 P3 = [$2.70(1 + .036)4]/(.108 − .036) = $43.20  
   
 Capital gains = $43.20 − 38.85 = $4.35

114) A

*R* = ($3.40/$46.55) + .028 = .1010, or 10.10%

115) E

P2 = [$2.34(1 + .033)]/(.107 − .033) = $32.65  
   
 P0 = $2.85/1.107 + ($2.34 + 32.65)/1.1072 = $31.13

116) B

P2 = [$1.98(1.200)]/1.100 + [$1.98(1.200)(1.150)]/1.1002 + {[$1.98(1.200)(1.150)(1.030)]/(.100 − .030)}/1.1002  
   
 P0 = $37.65

117) D

P5 = $1.75/.114 = $15.35  
   
 P0 = $3.65/1.114 + $15.35/1.1145  
 P0 = $12.22

118) C

P6 = $4.90/(.113 − .035) = $62.82  
   
 P0 = $62.82/1.1136  
 P0 = $33.05

119) E

Dividend yield = 8.7% − 6.0% = 2.7%

120) B

P4 = $5.00/.0435 = $114.94  
   
 P0 = $114.94/1.04354  
 P0 = $96.94

121) B

P7 = [$3.25(1.0425)8]/(.1150 − .0425) = $62.54

122) E

P = $3.35(17.6) = $58.96

123) E

EPS = ($525,000 + 1,575,000)/495,000 = $4.24  
   
 P = $4.24(15.10) = $64.06

124) E

EPS = $1.79/.60 = $2.98  
   
 P = $2.98(15.80) = $47.14

125) D

EPS8 = $1.69(1.089)8 = $3.34  
   
 P8 = $3.34(19.55) = $65.35

126) B

EPS2 = $1.68/.45 = $3.73  
   
 P = $1.53/1.105 + $1.68/1.1052 + ($3.73 × 17.55)/1.1052 = $56.42

127) D

P = $26.03(2.11) = $54.92

128) A

Sales per share = $3,450,000/117,000 = $29.49  
   
 P = $29.49(1.82) = $53.67

129) B

Sales per share = $3.41/.079 = $43.16  
   
 P = $43.16(2.04) = $88.06

130) E

EPS6 = $20.11(1.047)6 = $26.49  
   
 P6 = $26.49(1.73) = $45.83

131) B

Sales per share2 = $15,450,000/521,500 = $29.63  
   
 P = $2.41/1.104 + $2.56/1.1042 + ($29.63 × 1.59)/1.1042 = $42.93

132) Our basic principle of stock valuation is that the value of a share of stock is equal to the present value of all the expected future cash flows from the stock. According to the dividend growth model, an asset that has no expected cash flows has a value of zero, so if investors are willing to purchase shares of stock in firms that pay no dividends, they evidently expect that the firms will begin paying dividends at some point in the future. If no dividends are ever expected, investors are most likely expecting the firm will be sold in the future and a cash flow will occur at that time.

133) The two components are dividend yield, which measures the annual percentage income return on a stock from its dividend payments, and the capital gains yield, which is the annual percentage of price appreciation or depreciation.

134) Bonds, unlike stocks, have a final maturity date and promised payments at fixed periods of time. Thus, once an appropriate discount rate is established, valuing a bond is relatively simple. For stocks, the only valuation model we have up to this point in the text is the dividend growth model which requires estimation of a dividend growth rate and also requires that certain conditions be met before the dividend growth model can be applied. Normally, all of the information required to find the yield on a publicly traded bond is publicly available while only the price and the most current dividend are available for stocks.

135) The PE ratio is an all-equity ratio whereby the numerator is the price per share of stock and the denominator is the earnings per share of stock. The enterprise value includes both debt and equity components for a total firm valuation. In the enterprise value to EBITDA ratio, the numerator is the market value of the firm’s equity plus the market value of the firm’s debt minus excess cash. The denominator, EBITDA, is the earnings before interest, taxes, depreciation, and amortization. Using EV/EBITDA allows the analyst to account for total firm value, taking into account both debt and equity, thereby adjusting for leverage when comparing firms in the same industry.

136) A market order will be executed immediately at the best price available, which is unknown before order execution. A limit order will be executed only at the limit price, or better, but whether or not the order will be executed is unknown. A stop order will convert to a market order once the market price hits the stop order price.