3. Award: 0 out of 10.00 points

Suppose you know that a company's stock currently sells for $61 per share and the required return on the stock is 11 percent. You also know that the total return on the stock is evenly divided between a capital gains yield and a dividend yield. If it's the company's policy to always maintain a constant growth rate in its dividends, what is the current dividend per share? **(Do not round intermediate calculations and round your answer to 2 decimal places, e.g., 32.16.)**

Current dividend per share	

References

Worksheet Learning Objective: 08-01 Explain how stock prices depend on future dividends and dividend growth.

Difficulty: 1 Basic Section: 8.1 Common Stock Valuation

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Current dividend per share	$ 3.18 +/-1%

Explanation:

Note: Intermediate answers are shown below as rounded, but the full answer was used to complete the calculation.

We know the stock has a required return of 11 percent, and the dividend and capital gains yield are equal, so:

Dividend yield = 1/2(.11) = .055 = Capital gains yield

Now we know both the dividend yield and capital gains yield. The dividend is simply the stock price times the dividend yield, so:

$D_1 = .055(\$61)$
$D_1 = \$3.36$

This is the dividend next year. The question asks for the dividend this year. Using the relationship between the dividend this year and the dividend next year:

$D_1 = D_0(1 + g)$

We can solve for the dividend that was just paid:

$\$3.36 = D_0(1 + .055)$
$D_0 = \$3.36/1.055$
$D_0 = \$3.18$