4. Award: **0 out of 10.00 points**

Fegley, Incorporated, has an issue of preferred stock outstanding that pays a $5.55 dividend every year in perpetuity. If this issue currently sells for $92 per share, what is the required return? **(Do not round intermediate calculations and enter your answer as a percent rounded to 2 decimal places, e.g., 32.16.)**

Required return		%

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

Fegley, Incorporated, has an issue of preferred stock outstanding that pays a $5.55 dividend every year in perpetuity. If this issue currently sells for $92 per share, what is the required return? **(Do not round intermediate calculations and enter your answer as a percent rounded to 2 decimal places, e.g., 32.16.)**

Required return	6.03+/-1%	%

Explanation:

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

The price of a share of preferred stock is the dividend divided by the required return. This is the same equation as the constant growth model, with a dividend growth rate of zero percent. Remember, most preferred stock pays a fixed dividend, so the growth rate is zero. Using this equation, we find the required return of the preferred stock is:

$R = D/P_0$
$R = \$5.55/\$92$

$R = .0603$, or 6.03%