6. Award: 0 out of 10.00 points

Premier, Incorporated, has an odd dividend policy. The company has just paid a dividend of $4 per share and has announced that it will increase the dividend by $4 per share for each of the next five years, and then never pay another dividend. If you require a return of 10 percent on the company's stock, how much will you pay for a share today? **(Do not round intermediate calculations and round your answer to 2 decimal places, e.g., 32.16.)**

Current share price	

References

Worksheet	Learning Objective: 08-01 Explain how stock prices depend on future dividends and dividend growth.
Difficulty: 2 Intermediate	Section: 8.1 Common Stock Valuation

Premier, Incorporated, has an odd dividend policy. The company has just paid a dividend of $4 per share and has announced that it will increase the dividend by $4 per share for each of the next five years, and then never pay another dividend. If you require a return of 10 percent on the company's stock, how much will you pay for a share today? **(Do not round intermediate calculations and round your answer to 2 decimal places, e.g., 32.16.)**

Current share price	$ 57.77 +/-1%

Explanation:

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

The price of a stock is the PV of the future dividends. This stock is paying five dividends, so the price of the stock is the PV of these dividends using the required return. The price of the stock is:

$P_0 = \$8/1.10 + \$12/1.10^2 + \$16/1.10^3 + \$20/1.10^4 + \$24/1.10^5$
$P_0 = \$57.77$