**Chapter Preview : Chapter 9**

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1. **Explain the purpose of a dividend-discount model.**

: The purpose of a dividend-discount model is to estimate the intrinsic value of a stock by calculating the present value of its future expected dividends.

: We show that if investors have the same beliefs, their valuation of the stock will not depend on their investment horizon. Using this result, we then derive the first method to value a stock: the dividend-discount model.

1. **What is the total return?**

: Total return refers to the total profit or loss that an investment generates over a particular period, including capital gains or losses and dividends or interest.

1. **Does repurchase of stock can affect shareholder wealth?**

: Yes, the repurchase of stock can affect shareholder wealth. By reducing the number of outstanding shares, it increases the earnings per share, which can lead to an increase in the stock price and therefore increase shareholder wealth.

1. **What is the method of comparables?**

: The method of comparables is a valuation technique that involves comparing the financial metrics of a company to those of similar companies in the same industry to determine its value.

1. **How the price-earnings ratio (P/E) can be used to estimate the value of a firm?**

: The price-earnings ratio (P/E) can be used to estimate the value of a firm by comparing its stock price to its earnings per share. A higher P/E ratio implies that investors are willing to pay more for each dollar of earnings generated by the company.

1. **State the efficient market hypothesis.**

: The efficient market hypothesis states that financial markets are informationally efficient, meaning that all available information is quickly and accurately reflected in the prices of financial assets.

1. **Define following terms:**

* **Dividend payout ratio**

: The dividend payout ratio is the percentage of a company's earnings that are paid out to shareholders as dividends.

* **Weighted average cost of capital**

: The weighted average cost of capital (WACC) is the average cost of all the capital used by a company to fund its operations, including debt and equity.

* **Sustainable growth rate**

: The sustainable growth rate is the maximum rate at which a company can grow without needing to raise additional external financing while maintaining a stable debt-to-equity ratio.

**: How they can grow without external financing(issuing stocks, issuing bonds)?**

* **With their retained earnings!**