This is a page from the fall 2023 midterm #1:

Question 17: A *large-cap growth* strategy tries to invest in growth stocks with a large market capitalization. Which of these stocks would be *most* attractive to this strategy?

	Company	Share price	Shares outstanding	Book value of equity
□ A)	A	$1.00	10 billion	$1 billion
□ B)	B	$2.00	5 billion	$2 billion
□ C)	C	$4.00	5 billion	$2 billion
□ D)	D	$5.00	4 billion	$4 billion

Question 18: You forecast a stock will pay a dividend of $1 per share next year, and this dividend will then grow at a rate of 2% per year thereafter. If the equity cost of capital is 12% per year, what is the stock's intrinsic value under the dividend discount model?

Question 19: A company has 1 billion shares outstanding, a share price of $5, and an equity cost of capital of 12%. The market's consensus forecast of next year's free cash flow to equity (FCFE) is $100 million. If the company's stock price matches its FCFE valuation, then, what growth rate (as a percent) must the market expect for the FCFEs?

Question 20: Suppose a corporation issues a 10-year bond with a yield to maturity of 10%. An analyst forecasts that the expected average return of the stock market is 8% per year over the next 10 years, and concludes that the bond is expected to deliver greater average returns than the stock market. Why is this conclusion incorrect?

□ A) The expected rate of return for a risky bond is less than its yield.
□ B) The expected rate of return for a risky bond is greater than its yield.
□ C) A high yield to maturity indicates a high price.
□ D) A high yield to maturity indicates a low price.