"We are not a speculator but investor"

Eco352 Finance
04/16/1/2019 in-class activity- Ch. 10 Valuation Concepts

Name____________________________________

1. (**Valuing stock with zero Growth**) Suppose that we have a stock that is expected to always pay a dividend equal to $1.60, and the required rate of return associated with such an investment is 20%. What is the value of the stock?

2. (**Expected rate of return on a zero growth stock**) If you buy a stock at a price of $8 and you expect to receive a constant dividend equal to $1.6, your expected rate of return would be:

3. (**Valuing stock with constant Growth)** Suppose that we have a stock that is expected to always pay a dividend equal to $1.60, and the required rate of return associated with such an investment is 20%. If a firm just paid a dividend of $1.6 and investors expect a 5% growth rate, what is the value of the stock?

4. (**Valuing stock with non-constant Growth)**

Stockholders' required rate of return = 20%
The number of years of nonconstant = 3 years
The rate of growth in both earnings and dividends during 3 years of nonconstant growth = 3%
The rate of normal (constant) growth after nonconstant growth rate period = 5%
The last dividend paid by the company = D_0=$1.60