

Module 5 – Part 2 HOMEWORK – Equity Financing and Securities Markets

Directions – Module 5 – Part 2 HOMEWORK – Equity Financing and Securities Markets

Please try your best on these answers. The more you work on these the better off you will be for the test!

I have created a PowerPoint as *guides* to try to get you through these questions. The numbers will be different but the processes the same.

The answers and solutions will be shared on, October 7th.

If the answer is a whole dollar number, please report the answer in currency format, with commas and no decimals (example \$10,000). If the number is negative please express it as (\$10,000).

If the answer is a percent - then please express it with the percentage sign and rounded-up to one-decimal. For example, if you got 7.89 as a percent - you would need to express it as 7.9%. If you got negative 7.89% you would need to express it as (7.9%).

1. Medical Corporation of America (MCA) has a current stock price of \$36, and its last dividend (D_0) was \$2.40. In view of MCA's strong financial position, its required rate of return is 12%. If MCA's dividends are expected to grow at a constant rate in the future, *what is the firm's expected stock price in five years?*

Choice: \$43.22
Choice: \$45.95
Choice: \$52.10
Choice: \$68.75

2. A broker offers to sell you shares of Bay Area Healthcare, which just paid a dividend of \$2 per share. The dividend is expected to grow at a constant rate of 5% per year. The stock's required rate of return is 12%. *What is the expected dollar dividend at the end of three years?*

Choice: \$2.32
Choice: \$3.12
Choice: \$5.00
Choice: 12%

3. A broker offers to sell you shares of Bay Area Healthcare, which just paid a dividend of \$2 per share. The dividend is expected to grow at a constant rate of 5% per year. The stock's required rate of return is 12%. *What would be a price for this stock?*

Choice: \$25
Choice: \$30
Choice: \$40
Choice: \$45

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4. A broker offers to sell you shares of Bay Area Healthcare, which just paid a dividend of \$2 per share. The dividend is expected to grow at a constant rate of 5% per year. The stock's price is \$30 a share. The stock's required rate of return is 12%. *What is the expected capital gains yield at the end of the third year?*

Choice: 2.5%
Choice: 5.0%
Choice: 7.5%
Choice: \$30 at end of year

5. A broker offers to sell you shares of Bay Area Healthcare, which just paid a dividend of \$2 per share. The stock's price is \$30 a share. The dividend is expected to grow at a constant rate of 5% per year. The stock's required rate of return is 12%. *What is the expected total return yield (this is the expected dividend yield + expected capital gains yield) for each of the next three years?*

Choice: 8%
Choice: 10%
Choice: 12%
Choice: 14%

6. Assume the risk-free rate is 6% and the market risk premium is 6%. The stock of Physicians Care Network (PCN) has a beta of 1.5. The last dividend paid by PCN (D_0) was \$2 per share. *What would PCN's stock value be if the dividend were expected to grow at a constant rate of negative 5%.*

Choice: \$6.00
Choice: \$9.50
Choice: \$13.45
Choice: \$17.60

7. Assume the risk-free rate is 6% and the market risk premium is 6%. The stock of Physicians Care Network (PCN) has a beta of 1.5. The last dividend paid by PCN (D_0) was \$2 per share. *What would PCN's stock value be if the dividend were expected to grow at a constant rate of 0%.*

Choice: \$0.00
Choice: \$5.05
Choice: \$13.33
Choice: \$20.40

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8. Assume the risk-free rate is 6% and the market risk premium is 6%. The stock of Physicians Care Network (PCN) has a beta of 1.5. The last dividend paid by PCN (D_0) was \$2 per share. *What would PCN's stock value be if the dividend were expected to grow at a constant rate of 10%.*

Choice: \$35.00
Choice: \$40.00
Choice: \$44.00
Choice: \$50.00

9. Assume the risk-free rate is 6% and the market risk premium is 6%. The stock of Physicians Care Network (PCN) has a **beta of 1.0**. The last dividend paid by PCN (D_0) was \$2 per share. *What would be the stock value if the growth rate were 10%? Do you see the difference that the Beta can make on estimated stock value (look at answer for #8 and #9)?*

Choice: \$50.00
Choice: \$100.00
Choice: \$110.00
Choice: \$115.00

10. Better Life Nursing Home, Inc. has maintained a dividend payment of \$4 per share for many years. The same dollar dividend is expected to be paid in future years. The same dollar dividend is expected to be paid in future years. *If investors require a 12% rate of return on investments of similar risk, determine the value of the company's stock.*

Choice: \$11.11
Choice: \$22.22
Choice: \$33.33
Choice: \$44.44

11. Lucas Clinic's last dividend D_0 was \$1.50. Its current equilibrium stock price is \$15.75, and its expected growth rate is a constant 5%. If the stockholders' required rate of return is 15%, *what is expected total return yield (dividend yield and capital gains yield) for the coming year?*

Choice: 5.0%
Choice: 10.0%
Choice: 12.5%

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Choice: 15.0%

12. St John Medical, a surgical equipment manufacturer, has been hit hard by increased competition. Analysts predict that earnings and dividends will decline at a rate of 5% annually into the foreseeable future. If the firm's last dividend (D_0) was \$2.00 and the investors' required rate of return is 15%, *what will be the company's stock price in three years?*

Choice: \$8.15

Choice: \$0.00

Choice: \$20.00

Choice: \$12.45

13. Human's Inc.'s last dividend (D_0) was \$1.12, and its earnings and dividends are expected to increase at a constant growth rate of 12%. Humana's market beta is 1.16. If the current risk-free rate is 5% and the required rate of return on the market portfolio is 12%, *what is the company's current expected stock price?*

Choice: \$95.00

Choice: \$100.51

Choice: \$111.61

Choice: \$118.45