**Chapter 8 HW solutions**

1. Northern Gas recently paid a $2.80 annual dividend on its common stock. This dividend increases at an average rate of 3.8 percent per year. The stock is currently selling for $26.91 a share. What is the market rate of return?   
A. 13.88 percent  
B. 14.03 percent  
C. 14.21 percent  
D. 14.37 percent  
E. 14.60 percent



2. Douglass Gardens pays an annual dividend that is expected to increase by 4.1 percent per year. The stock commands a market rate of return of 12.6 percent and sells for $24.90 a share. What is the expected amount of the next dividend?   
A. $2.03  
B. $2.12  
C. $3.17  
D. $2.20  
E. $2.28



3. IBM just paid $3.00 dividend per share to investors. The dividend growth rate is 10%. What is the expected dividend of the next year?

* 1. $3.00
  2. $3.10
  3. $3.20
  4. $3.30

1. IBM just paid $3.00 dividend per share to investors. The dividend growth rate is 5%. The expected return to investors is 10%?
   1. $150
   2. $63
   3. $30
   4. $60
2. You bought 1 share of HPD for $20 in May 2008 and sold it for $30 in May 2009. How much is the holding period?
3. 52.5%
4. 50%
5. 20.5%
6. 30.5%
7. The current market price of stock is $50 and the stock is expected to pay dividend of $2 with a growth rate of 6%. How much is the expected return to stockholders?
   1. 6%
   2. 10%
   3. 4%
   4. 5%
8. The stockholder’s expected return is 8% and the stock is expected to pay dividend of $2 with a growth rate of 4%. How much should the stock be traded for?
   1. $50
   2. $25
   3. $100
   4. $40
9. The stockholder’s expected return is 8% and the stock is expected to pay dividend of $2 with a growth rate of 4%. How much is the dividend expected to be three years from now? (Hint: D3 = D2\*(1+g) = D1\*(1+g)2 )
   1. 2.12
   2. 2.04
   3. 2.08
   4. 2.16

9. Kilsheimer Company just paid a dividend of $5 per share. Future dividends are expected to grow at a constant rate of 7% per year. The value of the stock is $42.80. What is the required return of this stock?

A) 19.50%

B) 17.30%

C) 15.80%

D) 7%

10. Investors of Creamy Custard common stock earns 15% of return. It just paid a dividend of $6.00 and dividends are expected to grow at a rate of 6% indefinitely. What is expected price of Creamy Custard's stock?

A) 66.67

B) 70.67

C) 75.00

D) 72.48

11). Douglass Gardens pays an annual dividend that is expected to increase by 6 percent per year. The stock commands a market rate of return of 12.6 percent and sells for $24.90 a share. What is the dividend yield of this stock?   
A. 6%  
**B. 6.6%**C. 12.6%  
D. Cannot decide.