SS 14 Equity Analysis and Valuation

Question #1 of 200

Question ID: 415368

A firm has a return on equity (ROE) of 15% and a dividend payout rate of 80%. If last year's dividend was $0.80 and the required return on equity is 10%, what is the firm's estimated dividend growth rate and what is the current stock price?

	Dividend growth rate	Stock price
A)	3.00%	$11.77
B)	12.00%	$11.77
C)	3.00%	$9.96

Question #2 of 200

Question ID: 415330

A firm pays an annual dividend of $1.15. The risk-free rate (RF) is 2.5%, and the total risk premium (RP) for the stock is 7%. What is the value of the stock, if the dividend is expected to remain constant?

A) $25.00.

B) $12.10.

C) $16.03.

Question #3 of 200

Question ID: 415423

Enterprise value is *most* accurately described as a firm's:

A) market value of stock plus market value of debt, minus cash and short-term investments.

B) market value of stock plus cash and short-term investments, minus market value of debt.

C) market value of assets minus market value of liabilities, plus cash and short-term investments.

Question #4 of 200

Question ID: 415399

If the expected dividend payout ratio of a firm is expected to rise from 50 percent to 55 percent, the cost of equity is expected to increase from 10 percent to 11 percent, and the firm's growth rate remains at 5 percent, what will happen to the firm's price-to-equity (P/E) ratio? It will:

A) increase.

B) decline.

C) be unchanged.

Question #5 of 200

Question ID: 415279

When analyzing an industry characterized by increasing book values of equity, return on equity for a period is *most* appropriately calculated based on:

A) average book value.

B) ending book value.

C) beginning book value.

Question #6 of 200

Question ID: 415336

If a stock sells for $50 that has an expected annual dividend of $2 and has a sustainable growth rate of 5%, what is the market discount rate for this stock?

A) 7.5%.

B) 9.0%.

C) 10.0%.

Question #7 of 200

Question ID: 415262

Hodges Fund provides mezzanine stage financing to private companies. In which type of private equity investing is Hodges Fund most likely involved?

A) Venture capital.

B) Private investment in public equity.

C) Leveraged buyout.

Question #8 of 200

Question ID: 434394

When calculating a sustainable growth rate for a company an analyst *most likely* assumes:

A) return on equity will grow.

B) equity is sold at a constant rate.

C) the dividend payout ratio is constant.

Question #9 of 200

Question ID: 415284

Food, beverage, and utility companies are examples of:

A) declining industries.

B) cyclical industries.

C) defensive industries.

Question #10 of 200

Question ID: 415366

If a firm's growth rate is 12% and its dividend payout ratio is 30%, its current return on equity (ROE) is *closest* to:

A) 17.14%.

B) 36.00%.

C) 40.00%.

Question #11 of 200

Question ID: 434395

An analyst evaluating a stable, mature, electric utility with non-cyclical earnings and a high dividend would *most appropriately* use a:

A) constant growth model.

B) 2-stage model.

C) 3-stage model

Question #12 of 200

Question ID: 496424

When classifying companies into peer groups for analysis, an analyst should:

A) examine firms' annual reports to see if they identify competitors.

B) disregard industry classifications from commercial providers.

C) include each company in only one peer group.

Question #13 of 200

Question ID: 415269

Other things equal, preference shares have the *most* risk for the investor when they are:

A) non-callable and non-cumulative.

B) callable and non-cumulative.

C) putable and cumulative.

Question #14 of 200

Question ID: 434381

Which of the following statements about book value of equity is *most accurate*?

A) Book value of equity reflects the market's perception of the firm's prospects.

B) The primary goal of firm management is to increase the book value of the firm's equity.

C) Increases in retained earnings decrease book value.

Question #15 of 200

Question ID: 415371

A firm has a profit margin of 10%, an asset turnover of 1.2, an equity multiplier of 1.3, and an earnings retention ratio of 0.5. What is the firm's internal growth rate?

A) 7.8%.

B) 4.5%.

C) 6.7%.

Question #16 of 200

Question ID: 415303

Wallace Kidwell is classifying an industry as to its life-cycle stage. Kidwell notes that the industry's growth is stable and largely limited to replacement demand and overall population increases. The companies that comprise the industry have achieved efficient cost structures and strong brand loyalty. This level of brand loyalty has resulted in very few price wars. Kidwell will *most likely* classify the industry life cycle stage as being:

A) Mature.

B) Decline.

C) Shakeout.

Question #17 of 200

Question ID: 415404

An analyst gathered the following data:

- An earnings retention rate of 40%.
- An ROE of 12%.
- The stock's beta is 1.2.
- The nominal risk free rate is 6%.
- The expected market return is 11%.

Assuming next year's earnings will be $4 per share, the stock's current value is *closest* to:

A) $45.45.

B) $33.32.

C) $26.67.

Question #18 of 200

Question ID: 415304

Which of the following industries is *most likely* to operate in a fragmented market?

A) Oil services.

B) Confections.

C) Pharmaceuticals.

Question #19 of 200

Question ID: 434384

The experience curve, which illustrates the cost per unit relative to output:

A) slopes downward.

B) slopes upward.

C) slopes upward in the early years and downward in the later years.

Question #20 of 200

Question ID: 415314

An analyst estimates the intrinsic value of a stock to be equal to ¥1,567 per share. If the current market value of the stock is ¥1,487 per share, the stock is:

A) fairly valued.
B) undervalued.
C) overvalued.

Question #21 of 200

Question ID: 415285

Which of the following industries is *most likely* to be classified as non-cyclical?

A) Housing.
B) Utilities.
C) Autos.

Question #22 of 200

Question ID: 434382

Commercial index providers typically classify companies by:

A) sensitivity to business cycles.
B) statistical grouping.
C) principal business activity.

Question #23 of 200

Question ID: 415287

Starr Company is an asset management firm. Thomas Company is a manufacturer of apparel. Assuming these firms are representative of their industry groups, how are they *best* classified with regard to their sensitivity to the business cycle?

	Starr	Thomas
A)	Cyclical	Non-cyclical
B)	Non-cyclical	Non-cyclical
C)	Cyclical	Cyclical

Question #24 of 200

Question ID: 415436

One advantage to using the price/book value (P/B) ratio over using the price/earnings (P/E) ratio is that P/B can be used when:

A) earnings or cash flows are negative.

B) the firm is in a slow growth phase.

C) stock markets are volatile.

Question #25 of 200

Question ID: 598998

The competitive forces identified by Michael Porter include:

A) rivalry among existing competitors and power of buyers.

B) power of existing competitors and threat of entry.

C) threat of substitutes and rivalry among suppliers.

Question #26 of 200

Question ID: 415414

An analyst gathered the following data for the Parker Corp. for the year ended December 31, 2005:

- EPS_{2005} = $1.75
- $Dividends_{2005}$ = $1.40
- $Beta_{Parker}$ = 1.17
- Long-term bond rate = 6.75%
- Rate of return $S\&P_{500}$ = 12.00%

The firm has changed its dividend policy and now plans to pay out 60% of its earnings as dividends in the future. If the long-term growth rate in earnings and dividends is expected to be 5%, the appropriate price to earnings (P/E) ratio for Parker will be:

A) 7.60.

B) 9.14.

C) 7.98.

Question #27 of 200

Question ID: 415338

An analyst has gathered the following data for Webco, Inc:

- Retention = 40%
- ROE = 25%
- k = 14%

Using the infinite period, or constant growth, dividend discount model, calculate the price of Webco's stock assuming that next years earnings will be $4.25.

A) $125.00.

B) $63.75.

C) $55.00.

Question #28 of 200

Question ID: 415377

The required rate of return on equity used as an input to the dividend discount model is influenced by each of the following factors EXCEPT:

A) the stock's dividend payout ratio.

B) the stock's appropriate risk premium.

C) the expected inflation rate.

Question #29 of 200

Question ID: 415361

A firm has an expected dividend payout ratio of 50%, a required rate of return of 12% and a constant growth rate of 6%. If earnings for the next year are expected to be $4.50, the value of the stock today is *closest to*:

A) $39.75.

B) $37.50.

C) $33.50.

Question #30 of 200

Question ID: 415327

What is the value of a preferred stock that is expected to pay a $5.00 annual dividend per year forever if similar risk securities are now yielding 8%?

A) $60.00.

B) $40.00.

C) $62.50.

Question #31 of 200

Question ID: 415265

Global depository receipts are *most likely* issued:

A) outside the issuer's home country and denominated in the exchange's home currency.

B) outside the issuer's home country and denominated in U.S. dollars.

C) in the United States and denominated in U.S. dollars.

Question #32 of 200

Question ID: 415308

Technological changes are *most likely* to result in which of the following effects? Evolving technology is likely to result in changes in:

A) educational curriculum and the relative demand for various products.

B) educational curriculum only.

C) the relative demand for various products only.

Question #33 of 200

Question ID: 415277

A firm's cost of equity capital is *least* accurately described as the:

A) minimum rate of return investors require to invest in the firm's equity securities.

B) ratio of the firm's net income to its average book value.

C) expected total return on the firm's equity shares in equilibrium.

Question #34 of 200

Question ID: 415382

Which of the following is NOT an assumption of the constant growth dividend discount model (DDM)?

A) Dividend payout is constant.

B) ROE is constant.

C) The growth rate of the firm is higher than the overall growth rate of the economy.

Question #35 of 200

Question ID: 598997

Economic profits are *most likely* to be earned by firms in an industry that is characterized by:

A) high barriers to entry and low power of buyers.

B) high power of suppliers and low threat of entry.

C) low threat of substitutes and high rivalry among existing competitors.

Question #36 of 200

Question ID: 415410

All else equal, an increase in a company's growth rate will most likely cause its P/E ratio to:

A) either increase or decrease.

B) increase.

C) decrease.

Question #37 of 200

Question ID: 415273

Equity securities are *least likely* issued to finance:

A) research and development.

B) equipment.

C) inventories.

Question #38 of 200

Question ID: 415378

The capital asset pricing model can be used to estimate which of the following inputs to the dividend discount model?

A) The required return on equity.

B) The expected inflation rate.

C) The expected growth rate in dividends.

Question #39 of 200

Question ID: 415351

Calculate the value of a common stock that last paid a $2.00 dividend if the required rate of return on the stock is 14 percent and the expected growth rate of dividends and earnings is 6 percent. What growth model is an example of this calculation?

	Value of stock	Growth model
A)	$26.50	Supernormal growth
B)	$25.00	Gordon growth

C) $26.50 Gordon growth

Question #40 of 200

Question ID: 415434

An argument against using the price-to-sales (P/S) valuation approach is that:

A) P/S ratios do not express differences in cost structures across companies.

B) sales figures are not as easy to manipulate or distort as earnings per share (EPS) and book value.

C) P/S ratios are not as volatile as price-to-earnings (P/E) multiples.

Question #41 of 200

Question ID: 415324

A company has 8 percent preferred stock outstanding with a par value of $100. The required return on the preferred is 5 percent. What is the value of the preferred stock?

A) $160.00.

B) $100.00.

C) $152.81.

Question #42 of 200

Question ID: 415431

Which of the following is *least likely* an advantage of using price/sales (P/S) multiple?

A) P/S multiples are more reliable because sales data cannot be distorted by management.

B) P/S multiples are not as volatile as P/E multiples and hence may be more reliable in valuation analysis.

C) P/S multiples provide a meaningful framework for evaluating distressed firms.

Question #43 of 200

Question ID: 415365

A company's required return on equity is 15% and its dividend payout ratio is 55%. If its return on equity (ROE) is 17% and its beta is 1.40, then its sustainable growth rate is *closest* to:

A) 6.75%.

B) 7.65%.

C) 9.35%.

Question #44 of 200

Question ID: 415370

A high growth rate would be consistent with:

A) a low retention rate.

B) a high dividend payout rate.

C) a high ROE.

Question #45 of 200

Question ID: 415427

An asset-based valuation model is *most appropriate* for a company that:

A) is expected to remain profitable for the foreseeable future.

B) is likely to be liquidated.

C) has a high proportion of intangible assets among its total assets.

Question #46 of 200

Question ID: 415425

Gwangwa Gold, a South African gold producer, has as its primary asset a mine which is shown on the balance sheet with a value of R100 million. An analyst estimates the market value of this mine to be 90% of book value. The company's balance sheet shows other assets of R20 million and liabilities of R40 million, and the analyst feels that the book value of these items reflects their market values. Using the asset-based valuation approach, what should the analyst estimate the value of the company to be?

A) R70 million.

B) R110 million.

C) R80 million.

Question #47 of 200

Question ID: 415435

Which of the following is a *disadvantage* of using the price-to-book value (PBV) ratio?

A) Book value may not mean much for manufacturing firms with significant fixed costs.

B) Firms with negative earnings cannot be evaluated with the PBV ratios.

C) Book values are affected by accounting standards, which may vary across firms and countries.

Question #48 of 200

Question ID: 415402

According to the earnings multiplier model, which of the following factors is the least important in estimating a stock's price-to-earnings ratio? The:

A) historical dividend payout ratio.

B) estimated required rate of return on the stock.

C) expected dividend payout ratio.

Question #49 of 200

Question ID: 434383

Stages of an industry life cycle in chronological order are:

A) embryonic, growth, mature, shakeout, and decline.

B) growth, shakeout, mature, decline, and embryonic.

C) embryonic, growth, shakeout, mature, and decline.

Question #50 of 200

Question ID: 415316

The free cash flow to equity model is *best* described as a(n):

A) single-factor model.

B) enterprise value model.

C) present value model.

Question #51 of 200

Question ID: 415346

Utilizing the infinite period dividend discount model, all else held equal, if the required rate of return (K_e) decreases, the model yields a price that is:

A) increased, due to a smaller spread between required return and growth.

B) reduced, due to increased spread between growth and required return.

C) reduced, due to the reduction in discount rate.

Question #52 of 200

Question ID: 415275

The difference between a firm's balance sheet assets and liabilities is equal to the firm's:

A) market value of equity.

B) book value of equity.

C) intrinsic value of equity.

Question #53 of 200

Question ID: 415383

Which of the following statements regarding price multiples is *most* accurate?

A) An advantage of the price/sales ratio is that it is meaningful even for distressed firms.

B) A disadvantage of the price/book value ratio is that it is not an appropriate measure for firms that primarily hold liquid assets.

C) A rationale for using the price/cash flow ratio is that there is only one clear definition of cash flow.

Question #54 of 200

Question ID: 415335

Assuming the risk-free rate is 5% and the expected return on the market is 12%, what is the value of a stock with a beta of 1.5 that paid a $2 dividend last year if dividends are expected to grow at a 5% rate forever?

A) $17.50.

B) $20.00.

C) $12.50.

Question #55 of 200

Question ID: 415272

The primary reason for a firm to issue equity securities is to:

A) increase publicity for the firm's products.

B) acquire the assets necessary to carry out its operations.

C) improve its solvency ratios.

Question #56 of 200

Question ID: 415379

Which of the following statements about the constant growth dividend discount model (DDM) in its application to investment analysis is *least* accurate? The model:

A) can't be applied when g > K.

B) is best applied to young, rapidly growing firms.

C) is inappropriate for firms with variable dividend growth.

Question #57 of 200

Question ID: 415344

The following data pertains to a common stock:

- It will pay no dividends for two years.
- The dividend three years from now is expected to be $1.
- Dividends are expected to grow at a 7% rate from that point onward.

If an investor requires a 17% return on this stock, what will they be willing to pay for this stock now?

A) $ 7.30.

B) $10.00.

C) $ 6.24.

Question #58 of 200

Question ID: 415310

A firm that pursues a differentiation strategy is *most likely* to emphasize:

A) operating efficiency.

B) gains in market share.

C) market research.

Question #59 of 200

Question ID: 415317

Witronix is a rapidly growing U.S. company that has increased free cash flow to equity and dividends at an average rate of 25% per year for the last four years. The present value model that is *most* appropriate for estimating the value of this company is a:

A) multistage dividend discount model.

B) single stage free cash flow to equity model.

C) Gordon growth model.

Question #60 of 200

Question ID: 415354

Baker Computer earned $6.00 per share last year, has a retention ratio of 55%, and a return on equity (ROE) of 20%. Assuming their required rate of return is 15%, how much would an investor pay for Baker on the basis of the earnings multiplier model?

A) $40.00.

B) $173.90.

C) $74.93.

Question #61 of 200

Question ID: 415333

Use the following information and the dividend discount model to find the value of GoFlower, Inc.'s, common stock.

- Last year's dividend was $3.10 per share.
- The growth rate in dividends is estimated to be 10% forever.
- The return on the market is expected to be 12%.
- The risk-free rate is 4%.
- GoFlower's beta is 1.1.

A) $26.64.

B) $121.79.

C) $34.95.

Question #62 of 200

Question ID: 415256

Johnson Company shuts down and is liquidated. Bob Smith owns 100 common shares of Johnson, but has a lower priority of claims than Al Jones, who also owns 100 common shares. Smith *most likely* owns:

A) non-cumulative shares.

B) non-participating shares.

C) Class B shares.

Question #63 of 200

Question ID: 415432

An argument against using the price to cash flow (P/CF) valuation approach is that:

A) non-cash revenue and net changes in working capital are ignored when using earnings per share (EPS) plus non-cash charges as an estimate.

B) price to cash flow ratios are not as volatile as price-to-earnings (P/E) multiples.

C) cash flows are not as easy to manipulate or distort as EPS and book value.

Question #64 of 200

Question ID: 415362

If a company can convince its suppliers to offer better terms on their products leading to a higher profit margin, the return on equity (ROE) will *most likely*:

A) increase and the stock price will decline.

B) increase and the stock price will increase

C) decrease and the stock price will increase.

Question #65 of 200

Question ID: 434380

The book value of equity is equal to a firm's assets:

A) minus its liabilities.

B) plus its retained earnings.

C) plus its accumulated other comprehensive income.

Question #66 of 200

Question ID: 415254

Dividends on non-participating preference shares are typically:

A) a contractual obligation of the company.

B) lower than the dividends on common shares.

C) a fixed percentage of par value.

Question #67 of 200

Question ID: 415394

An analyst gathered the following information about an industry. The industry beta is 0.9. The industry profit margin is 8%, the total asset turnover ratio is 1.5, and the leverage multiplier is 2. The dividend payout ratio of the industry is 50%. The risk-free rate is 7% and the expected market return is 15%. The industry P/E is *closest* to:

A) 22.73.

B) 14.20.

C) 12.00.

Question #68 of 200

Question ID: 415387

Which of the following is a disadvantage of using price-to-sales (P/S) multiples in stock valuations?

A) The use of P/S multiples can miss problems associated with cost control.

B) It is difficult to capture the effects of changes in pricing policies using P/S ratios.

C) P/S multiples are more volatile than price-to-earnings (P/E) multiples.

Question #69 of 200

Question ID: 415349

Use the following information and the multi-period dividend discount model to find the value of Computech's common stock.

- Last year's dividend was $1.62.
- The dividend is expected to grow at 12% for three years.
- The growth rate of dividends after three years is expected to stabilize at 4%.
- The required return for Computech's common stock is 15%.

Which of the following statements about Computech's stock is *least* accurate?

A) Computech's stock is currently worth $17.46.

B) At the end of two years, Computech's stock will sell for $20.64.

C) The dividend at the end of year three is expected to be $2.27.

Question #70 of 200

Question ID: 415352

A company last paid a $1.00 dividend, the current market price of the stock is $20 per share and the dividends are expected to grow at 5 percent forever. What is the required rate of return on the stock?

A) 9.78%.

B) 10.00%.

C) 10.25%.

Question #71 of 200

Question ID: 434377

Compared to publicly traded firms, privately held firms have which of the following characteristics?

A) More limited financial disclosure.

B) Higher reporting costs.

C) Less ability to focus on long-term prospects.

Question #72 of 200

Question ID: 415343

Assume that a stock paid a dividend of $1.50 last year. Next year, an investor believes that the dividend will be 20% higher and that the stock will be selling for $50 at year-end. Assume a beta of 2.0, a risk-free rate of 6%, and an expected market return of 15%. What is the value of the stock?

A) $41.77.

B) $40.32.

C) $45.00.

Question #73 of 200

Question ID: 415319

The rationale for using dividend discount models to value equity is that the:

A) model works well for the finite period of time over which dividends are paid.

B) inputs are easily estimated and the model's estimates are robust.

C) intrinsic value of a stock is the present value of its future dividends.

Question #74 of 200

Question ID: 415260

Compared to a publicly traded firm, a private equity firm is *most likely* to:

A) exhibit stronger corporate governance.

B) be more concerned with short-term results.

C) disclose less information about its financial performance.

Question #75 of 200

Question ID: 496426

An enterprise value model for equity valuation is *most accurately* described as a(n):

A) multiplier model.

B) discounted cash flow model.

C) asset-based model.

Question #76 of 200

Question ID: 415381

Which of the following statements concerning security valuation is *least* accurate?

A) The best way to value a company with high and unsustainable growth that exceeds the required return is to use the temporary supernormal growth (multistage) model.

B) A firm with a $1.50 dividend last year, a dividend payout ratio of 40%, a return on equity of 12%, and a 15% required return is worth $18.24.

C) The best way to value a company with no current dividend but who is expected to pay dividends in three years is to use the temporary supernormal growth (multistage) model.

Question #77 of 200

Question ID: 415389

Assume that the expected dividend growth rate (g) for a firm decreased from 5% to zero. Further, assume that the firm's cost of equity (k) and dividend payout ratio will maintain their historic levels. The firm's P/E ratio will *most likely:*

A) increase.

B) decrease.

C) become undefined.

Question #78 of 200

Question ID: 415312

If an analyst estimates the intrinsic value for a security that is different from its market value, the analyst should *most likely* take an investment position based on this difference if:

A) the model used is not highly sensitive to its input values.

B) the security lacks a liquid market and trades infrequently.

C) many analysts independently evaluate the security.

Question #79 of 200

Question ID: 415325

If a preferred stock that pays a $11.50 dividend is trading at $88.46, what is the market's required rate of return for this security?

A) 7.69%.

B) 11.76%.

C) 13.00%.

Question #80 of 200

Question ID: 415266

A basket of listed depository receipts (BLDR) is *best* described as a(n):

A) exchange traded fund of depository receipts.

B) index of global depository receipts that trade on a specific exchange.

C) special purpose vehicle for issuing depository receipts in multiple countries.

Question #81 of 200

Question ID: 434387

A firm is *most likely* to have pricing power if it operates in an industry characterized by:

A) low concentration, overcapacity, and high market share stability.

B) high concentration, undercapacity, and high market share stability.

C) high concentration, undercapacity, and low market share stability.

Question #82 of 200

Question ID: 415332

Which of the following statements concerning security valuation is *least* accurate?

A) A stock to be held for two years with a year-end dividend of $2.20 per share, an estimated value of $20.00 at the end of two years, and a required return of 15% is estimated to be worth $18.70 currently.

B) A stock with a dividend last year of $3.25 per share, an expected dividend growth rate of 3.5%, and a required return of 12.5% is estimated to be worth $36.11.

C) A stock with an expected dividend payout ratio of 30%, a required return of 8%, an expected dividend growth rate of 4%, and expected earnings of $4.15 per share is estimated to be worth $31.13 currently.

Question #83 of 200

Question ID: 415405

Assume that a firm has an expected dividend payout ratio of 20%, a required rate of return of 9%, and an expected dividend growth of 5%. What is the firm's estimated price-to-earnings (P/E) ratio?

A) 2.22.

B) 5.00.

C) 20.00.

Question #84 of 200

Question ID: 415415

Use the following data to analyze a stock's price earnings ratio (P/E ratio):

- The stock's beta is 1.2.
- The dividend payout ratio is 60%.
- The stock's expected growth rate is 7%.
- The risk free rate is 6% and the expected rate of return on the market is 13%.

Using the dividend discount model, the expected P/E ratio of the stock is *closest* to:

A) 5.4.

B) 8.1.

C) 10.0.

Question #85 of 200

Question ID: 415384

One advantage of using price-to-book value (PBV) multiples for stock valuation is that:

A) book value of a firm can never be negative.

B) it is a stable and simple benchmark for comparison to the market price.

C) most of the time it is close to the market value.

Question #86 of 200

Question ID: 415288

Which of the following types of industries is typically characterized by stable performance during both expansions and contractions of the business cycle?

A) Cyclical.

B) Growth.

C) Defensive.

Question #87 of 200

Question ID: 415293

The industry experience curve illustrates the relationship between:

A) productivity and average years of employment.

B) company age and profitability.

C) cumulative output and cost per unit.

Question #88 of 200

Question ID: 415282

Commercial industry classification systems such as the Global Industry Classification Standard (GICS) typically classify firms according to their:

A) sensitivity to business cycles.

B) principal business activities.

C) correlations of historical returns.

Question #89 of 200

Question ID: 415356

Company B paid a $1.00 dividend per share last year and is expected to continue to pay out 40% of its earnings as dividends for the foreseeable future. If the firm is expected to earn a 10% return on equity in the future, and if an investor requires a 12% return on the stock, the stock's value is *closest* to:

A) $16.67.

B) $17.67.

C) $12.50.

Question #90 of 200

Question ID: 415426

Asset-based valuation models are *most appropriate* for a firm that:

A) has significant intangible assets.

B) has cyclical earnings.

C) is being liquidated.

Question #91 of 200

Question ID: 415396

All of the following factors affects the firm's P/E ratio EXCEPT:

A) growth rates of dividends.

B) the expected interest rate on the bonds of the firm.

C) the required rate of return.

Question #92 of 200

Question ID: 434379

Which of the following statements about the role of equities in financing a company's assets is *most accurate*?

A) Equity capital is typically used for the purchase of long-term assets and expansion into new areas.

B) Management can directly increase the market value of equity by increasing net income.

C) The book value and market value of equities is usually the same.

Question #93 of 200

Question ID: 415391

According to the earnings multiplier model, a stock's P/E ratio (P_0/E_1) is affected by all of the following EXCEPT the:

A) required return on equity.

B) expected stock price in one year.

C) expected dividend payout ratio.

Question #94 of 200

Question ID: 415372

Given the following information, compute the implied dividend growth rate.

- Profit margin = 10.0%
- Total asset turnover = 2.0 times
- Financial leverage = 1.5 times
- Dividend payout ratio = 40.0%

A) 12.0%.

B) 18.0%.

C) 4.5%.

Question #95 of 200

Question ID: 415403

Use the following information to determine the value of River Gardens' common stock:

- Expected dividend payout ratio is 45%.
- Expected dividend growth rate is 6.5%.
- River Gardens' required return is 12.4%.
- Expected earnings per share next year are $3.25.

A) $30.12.

B) $24.80.

C) $27.25.

Question #96 of 200

Question ID: 434396

If the payout ratio increases, the justified P/E multiple will:

A) increase, if we assume that the growth rate remains constant.

B) always increase.

C) decrease, if we assume that the growth rate remains constant.

Question #97 of 200

Question ID: 415342

An investor is considering acquiring a common stock that he would like to hold for one year. He expects to receive both $1.50 in dividends and $26 from the sale of the stock at the end of the year. What is the maximum price he should pay for the stock today to earn a 15 percent return?

A) $23.91.

B) $24.11.

C) $27.30.

Question #98 of 200

Question ID: 415270

In a period when U.S. equity prices are increasing and the U.S. dollar is depreciating, which of the following investors in U.S. equities is *most likely* to earn the highest return in the investor's local currency?

A) Non-U.S. investor who does not reinvest dividends.

B) U.S. investor who reinvests dividends.

C) Non-U.S. investor who reinvests dividends.

Question #99 of 200

Question ID: 415301

Which of the following statements about the industry life cycle is *most* accurate?

A) Industry growth rates are highest in the embryonic stage.

B) The mature stage is followed by a shakeout stage and a decline stage.

C) The growth stage is typically characterized by decreasing prices.

Question #100 of 200

Question ID: 415257

With which of the following types of equity shares does the investor typically have the greatest voting power?

A) Unsponsored depository receipts.

B) Common shares.

C) Participating preference shares.

Question #101 of 200

Question ID: 415390

According to the earnings multiplier model, all else equal, as the required rate of return on a stock increases, the:

A) P/E ratio will decrease.

B) earnings per share will increase.

C) P/E ratio will increase.

Question #102 of 200

Question ID: 415337

All else equal, if there is an increase in the required rate of return, a stock's value as estimated by the constant growth dividend discount model (DDM) will:

A) increase or decrease, depending upon the relationship between ke and ROE.

B) decrease.

C) increase.

Question #103 of 200

Question ID: 415311

An analyst gathered the following information about a company:

- The stock is currently trading at $31.00 per share.
- Estimated growth rate for the next three years is 25%.
- Beginning in the year 4, the growth rate is expected to decline and stabilize at 8%.
- The required return for this type of company is estimated at 15%.
- The dividend in year 1 is estimated at $2.00.

The stock is undervalued by approximately:

A) $15.70.

B) $0.00.

C) $6.40.

Question #104 of 200

Question ID: 434378

Common equity share types ranked from least risky to most risky are:

A) putable, option-free, callable.

B) option-free, putable, callable.

C) callable, putable, option-free.

Question #105 of 200

Question ID: 415419

Given the following information, compute price/book value.

- Book value of assets = $550,000
- Total sales = $200,000
- Net income = $20,000
- Dividend payout ratio = 30%
- Operating cash flow = $40,000
- Price per share = $100
- Shares outstanding = 1000
- Book value of liabilities = $500,000

A) 2.0X.

B) 2.5X.

C) 5.5X.

Question #106 of 200

Question ID: 415339

Which of the following statements about the constant growth dividend discount model (DDM) is *least* accurate?

A) In the constant growth DDM dividends are assumed to grow at a constant rate forever.

B) For the constant growth DDM to work, the growth rate must exceed the required return on equity.

C) The constant growth DDM is used primarily for stable mature stocks.

Question #107 of 200

Question ID: 415252

Two seats on a board of directors are to be elected. A voting system in which the owner of 100 shares may cast 100 votes in each of the board elections is a:

A) cumulative voting system.

B) proportional voting system.

C) statutory voting system.

Question #108 of 200

Question ID: 415429

Which of the following is NOT an advantage of using price-to-book value (PBV) multiples in stock valuation?

A) PBV ratios can be compared across similar firms if accounting standards are consistent.

B) Book value is often positive, even when earnings are negative.

C) Book values are very meaningful for firms in service industries.

Question #109 of 200

Question ID: 415264

A security that represents an equity share in a foreign firm and for which the voting rights are retained by the depository bank, is a(n):

A) American depository share.

B) unsponsored depository receipt.

C) global registered share.

Question #110 of 200

Question ID: 434393

A stock has the following elements: last year's dividend = $1, next year's dividend is 10% higher, the price will be $25 at year-end, the risk-free rate is 5%, the market risk premium is 5%, and the stock's beta is 1.5. The stock's price is *closest to*:

A) $23.50.

B) $20.20.

C) $23.20.

Question #111 of 200

Question ID: 434392

Day and Associates is experiencing a period of abnormal growth. The last dividend paid by Day was $0.75. Next year, they anticipate growth in dividends and earnings of 25% followed by negative 5% growth in the second year. The company will level off to a normal growth rate of 8% in year three and is expected to maintain an 8% growth rate for the foreseeable future. Investors require a 12% rate of return on Day. The value of Day stock today is *closest* to:

A) $18.65.

B) $24.05.

C) $20.70.

Question #112 of 200

Question ID: 415364

A company's payout ratio is 0.45 and its expected return on equity (ROE) is 23%. What is the company's implied growth rate in dividends?

A) 4.16%.

B) 10.35%.

C) 12.65%.

Question #113 of 200

Question ID: 415430

One advantage of price/sales (P/S) multiples over price to earnings (P/E) and price-to-book value (PBV) multiples is that:

A) P/S is easier to calculate.

B) Regression shows a strong relationship between stock prices and sales.

C) P/S can be used for distressed firms.

Question #114 of 200

Question ID: 415418

The current price of XYZ, Inc., is $40 per share with 1,000 shares of equity outstanding. Sales are $4,000 and the book value of the firm is $10,000. What is the price/sales ratio of XYZ, Inc.?

A) 0.010.

B) 10.000.

C) 4.000.

Question #115 of 200

Question ID: 415395

A firm has an expected dividend payout ratio of 48 percent and an expected future growth rate of 8 percent. What should the firm's price to earnings ratio (P/E) be if the required rate of return on stocks of this type is 14 percent and what is the retention ratio of the firm?

	P/E ratio	Retention ratio
A)	6.5	48%
B)	8.0	52%
C)	6.5	52%

Question #116 of 200

Question ID: 415413

An analyst gathered the following data for the Parker Corp. for the year ended December 31, 2005:

- EPS_{2005} = $1.75
- $Dividends_{2005}$ = $1.40
- $Beta_{Parker}$ = 1.17
- Long-term bond rate = 6.75%
- Rate of return S&P 500 = 12.00%

The firm is expected to continue their dividend policy in future. If the long-term growth rate in earnings and dividends is expected to be 6%, the forward P/E ratio for Parker Corp. will be:

A) 11.61.

B) 12.31.

C) 21.54.

Question #117 of 200

Question ID: 415428

Regarding the estimates required in the constant growth dividend discount model, which of the following statements is *most* accurate?

A) The variables "k" and "g" are easy to forecast.

B) The model is most influenced by the estimates of "k" and "g."

C) Dividend forecasts are less reliable than estimates of other inputs.

Question #118 of 200

Question ID: 415408

A company currently has a required return on equity of 14% and an ROE of 12%. All else equal, if there is an increase in a firm's dividend payout ratio, the stock's value will *most likely*:

A) either increase or decrease.

B) increase.

C) decrease.

Question #119 of 200

Question ID: 415322

Assuming a discount rate of 15%, a preferred stock with a perpetual dividend of $10 is valued at approximately:

A) $8.70.

B) $66.67.

C) $1.50.

Question #120 of 200

Question ID: 415307

Changes in population size and average age that affect industry growth and profitability are *best* described as:

A) demographic influences.

B) macroeconomic influences.

C) social influences.

Question #121 of 200

Question ID: 434388

Which of the following statements about switching costs is *most accurate*?

A) Switching costs tend to be lower for specialized products.

B) Low switching costs contribute to market share stability.

C) Switching costs include the time needed to learn to use a competitor's product.

Question #122 of 200

Question ID: 415401

Which of the following is NOT a determinant of the expected price/earnings (P/E) ratio?

A) Expected growth rate in dividends (g).

B) Average debt to capital ratio (D/C).

C) Expected dividend payout ratio (D/E).

Question #123 of 200

Question ID: 415302

Declining prices that result from the development of substitute products are *most likely* to characterize an industry in the:

A) decline stage.

B) mature stage.

C) shakeout stage.

Question #124 of 200

Question ID: 434389

Factors affecting industry growth that are related to the composition and age distribution of the population are *best* described as:

A) social influences.

B) demographic factors.

C) macroeconomic factors.

Question #125 of 200

Question ID: 415300

Pricing power for the firms in an industry is *most likely* to result from low:

A) barriers to entry.

B) industry concentration.

C) levels of capacity.

Question #126 of 200

Question ID: 627888

After completing a thorough industry analysis, which of the following is *most likely* an additional element an analyst should examine when analyzing a specific company within the industry?

A) Threat of entry.

B) Power of buyers.

C) Competitive strategy.

Question #127 of 200

Question ID: 415373

If the return on equity for a firm is 15% and the retention rate is 40%, the firm's sustainable growth rate is *closest* to:

A) 6%.

B) 9%.

C) 15%.

Question #128 of 200

Question ID: 415363

When a company's return on equity (ROE) is 12% and the dividend payout ratio is 60%, what is the implied sustainable growth rate of earnings and dividends?

A) 4.0%.

B) 4.8%.

C) 7.8%.

Question #129 of 200

Question ID: 415358

A company has just paid a $2.00 dividend per share and dividends are expected to grow at a rate of 6% indefinitely. If the required return is 13%, what is the value of the stock today?

A) $34.16.

B) $32.25.

C) $30.29.

Question #130 of 200

Question ID: 415341

Use the following information on Brown Partners, Inc. to compute the current stock price.

- Dividend just paid = $6.10
- Expected dividend growth rate = 4%
- Expected stock price in one year = $60
- Risk-free rate = 3%
- Equity risk premium = 12%

A) $59.55.
B) $57.48.
C) $57.70.

Question #131 of 200

Question ID: 415321

A preferred stock's dividend is $5 and the firm's bonds currently yield 6.25%. The preferred shares are priced to yield 75 basis points below the bond yield. The price of the preferred is *closest* to:

A) $90.91.
B) $80.00.
C) $5.00.

Question #132 of 200

Question ID: 415306

Which of the following industries is likely to be most sensitive to the business cycle?

A) Confectionery.
B) Automobile.
C) Pharmaceutical.

Question #133 of 200

Question ID: 415278

Which of the following changes would *most likely* cause a firm's return on equity to increase?

A) Net income increases by 5% and average book value of equity increases by 10%.
B) Net income decreases by 5% and average book value of equity decreases by 10%.
C) Net income increases by 5% and average book value of equity increases by 5%.

Question #134 of 200

Question ID: 415355

Assume that at the end of the next year, Company A will pay a $2.00 dividend per share, an increase from the current dividend of $1.50 per share. After that, the dividend is expected to increase at a constant rate of 5%. If an investor requires a 12% return on the stock, what is the value of the stock?

A) $28.57.

B) $31.78.

C) $30.00.

Question #135 of 200

Question ID: 415388

The price to book value ratio (P/BV) is a helpful valuation technique when examining firms:

A) with the same stock prices.

B) with older assets compared to those with newer assets.

C) that hold primarily liquid assets.

Question #136 of 200

Question ID: 415290

When constructing a peer group of firms, an analyst should *least* appropriately consider the firms':

A) cost structures.

B) industry classification.

C) business cycle sensitivity.

Question #137 of 200

Question ID: 415348

Assume a company has earnings per share of $5 and pays out 40% in dividends. The earnings growth rate for the next 3 years will be 20%. At the end of the third year the company will start paying out 100% of earnings in dividends and earnings will increase at an annual rate of 5% thereafter. If a 12% rate of return is required, the value of the company is approximately:

A) $102.80.

B) $92.92.

C) $55.69.

Question #138 of 200

Question ID: 415259

Two investors, Craig Tower and Erin Gray, own 100 shares each of the same company. Tower receives a quarterly dividend while Gray does not. This is *most likely* because Tower:

A) owns a different class of stock than Gray.

B) purchased his shares after Gray purchased her shares.

C) owns common shares while Gray owns preferred shares.

Question #139 of 200

Question ID: 415281

During the contraction phase of the business cycle, how will an active portfolio manager using an industry rotation strategy treat stocks of companies in a cyclical industry?

A) Overweight the industry.

B) Underweight the industry.

C) Maintain the target weight of the industry.

Question #140 of 200

Question ID: 415271

Compared to preferred stock, common stock is *most likely* to:

A) pay more frequent dividends.

B) exhibit a lower standard deviation of returns.

C) provide a higher average return.

Question #141 of 200

Question ID: 415326

A company has 6% preferred stock outstanding with a par value of $100. The required return on the preferred is 8%. What is the value of the preferred stock?

A) $100.00.

B) $92.59.

C) $75.00.

Question #142 of 200

Question ID: 415318

A valuation model based on the cash flows that a firm will have available to pay dividends in the future is *best* characterized as a(n):

A) free cash flow to equity model.

B) infinite period dividend discount model.

C) free cash flow to the firm model.

Question #143 of 200

Question ID: 415369

The Sustainable Growth Rate is equal to:

A) (ROE) x (1-RR).

B) (ROE) x (RR).

C) (ROE) x (1+RR).

Question #144 of 200

Question ID: 415298

Market share stability within an industry is *least likely* to result from a high level of:

A) switching costs.

B) barriers to entry.

C) product innovation.

Question #145 of 200

Question ID: 415274

Pearl River Heavy Industries shows the following information in its financial statements:

Total Assets	HK$146,000,000
Total Liabilities	HK$87,000,000
Net Income	HK$27,000,000
Price per Share	HK$312
Shares Outstanding	200,000

The equity securities of Pearl River have a:

A) book value of HK$62,400,000.

B) market value of HK$146,000,000.

C) book value of HK$59,000,000.

Question #146 of 200

Question ID: 415397

Assuming all other factors remain unchanged, which of the following would *most likely* lead to a decrease in the market P/E ratio?

A) An increase in the dividend payout ratio.

B) A decline in the risk-free rate.

C) A rise in the stock risk premium.

Question #147 of 200

Question ID: 415340

A stock is expected to pay a dividend of $1.50 at the end of each of the next three years. At the end of three years the stock price is expected to be $25. The equity discount rate is 16 percent. What is the current stock price?

A) $17.18.

B) $19.39.

C) $24.92.

Question #148 of 200

Question ID: 415261

Private equity securities *most likely*:

A) are illiquid and do not have quoted prices.

B) are issued to individual investors.

C) trade in over-the-counter dealer markets.

Question #149 of 200

Question ID: 415280

Industry analysis is *most likely* to provide an analyst with insight about a company's:

A) pricing power.

B) competitive strategy.

C) financial performance.

Question #150 of 200

Question ID: 415421

General, Inc., has net income of $650,000 and one million shares outstanding. The profit margin is 6 percent and General, Inc., is selling for $30.00. The price/sales ratio is equal to:

A) 10.83.

B) 2.77.

C) 0.65.

Question #151 of 200

Question ID: 434376

Securities that can be sold back to the issuing firm at a specific price are *best* described as:

A) putable.

B) convertible.

C) callable.

Question #152 of 200

Question ID: 434386

Factors that increase competition in an industry *most likely* include:

A) low barriers to entry, low concentration, and high unused capacity.

B) high barriers to entry, low concentration, and low unused capacity.

C) low barriers to entry, high concentration, and high unused capacity.

Question #153 of 200

Question ID: 415276

For a non-dividend paying firm, an increase in net income must increase:

A) market value of equity.

B) both book value and market value of equity.

C) book value of equity.

Question #154 of 200

Question ID: 415328

The preferred stock of the Delco Investments Company has a par value of $150 and a dividend of $11.50. A shareholder's required return on this stock is 14%. What is the maximum price he would pay?

A) $82.14.

B) $54.76.

C) $150.00.

Question #155 of 200

Question ID: 415398

A stock has a required return of 14% percent, a constant growth rate of 5% and a retention rate of 60%. The firm's P/E ratio should be:

A) 6.66.

B) 5.55.

C) 4.44.

Question #156 of 200

Question ID: 415334

What is the value of a stock that paid a $0.25 dividend last year, if dividends are expected to grow at a rate of 6% forever? Assume that the risk-free rate is 5%, the expected return on the market is 10%, and the stock's beta is 0.5.

A) $3.53.

B) $17.67.

C) $16.67.

Question #157 of 200

Question ID: 415433

An argument against using the price-to-earnings (P/E) valuation approach is that:

A) earnings can be negative.

B) earnings power is the primary determinant of investment value.

C) research shows that P/E differences are significantly related to long-run average stock returns.

Question #158 of 200

Question ID: 415297

A firm is *most likely* to have pricing power if:

A) its market share is high.

B) its product is differentiated.

C) costs to exit the industry are high.

Question #159 of 200

Question ID: 415309

An aggressive price reduction to gain market share is *most likely* to be associated with a:

A) product differentiation strategy.

B) cost leadership strategy.

C) service differentiation strategy.

Question #160 of 200

Question ID: 415420

Given the following information, compute price/sales.

- Book value of assets = $550,000.
- Total sales = $200,000.
- Net income = $20,000.
- Dividend payout ratio = 30%.
- Operating cash flow = $40,000.
- Price per share = $100.
- Shares outstanding = 1,000.
- Book value of liabilities = $500,000.

A) 2.00X.

B) 0.50X.

C) 2.50X.

Question #161 of 200

Question ID: 415329

An analyst projects the following pro forma financial results for Magic Holdings, Inc., in the next year:

- Sales of $1,000,000
- Earnings of $200,000
- Total assets of $750,000
- Equity of $500,000

- Dividend payout ratio of 62.5%
- Shares outstanding of 50,000
- Risk free interest rate of 7.5%
- Expected market return of 13.0%
- Stock Beta at 1.8

If the analyst assumes Magic Holdings, Inc. will produce a constant rate of dividend growth, the value of the stock is *closest to:*

A) $44

B) $19

C) $104

Question #162 of 200

Question ID: 415376

A company's growth rate in dividends and earnings can be estimated as the:

A) difference between the retention ratio and the return on equity.

B) product of the return on equity and the dividend payout ratio.

C) product of the retention ratio and the return on equity.

Question #163 of 200

Question ID: 415320

The yield on a company's 7.5%, $50 par preferred stock is 6%. The value of the preferred stock is *closest* to:

A) $12.50.

B) $62.50.

C) $50.00.

Question #164 of 200

Question ID: 415407

If a company has a "0" earnings retention rate, the firm's P/E ratio will equal:

A) 1 / k

B) k + g

C) D/P + g

Question #165 of 200

Question ID: 415424

An enterprise value multiple is typically calculated as the ratio of enterprise value to:

A) EBITDA.

B) net income.

C) sales.

Question #166 of 200

Question ID: 415412

Assume the following information for a stock:

Beta coefficient	= 1.50
Risk-free rate	= 6%
Expected rate of return on market	= 14%
Dividend payout ratio	= 30%
Expected dividend growth rate	= 11%

The estimated earnings multiplier (P/E ratio) is *closest* to:

A) 3.33.

B) 4.29.

C) 10.00.

Question #167 of 200

Question ID: 598996

The threat of substitutes is *most likely* to be low for a firm that:

A) produces a commodity product in an industry with significant unused capacity.

B) operates in a fragmented market with little unused capacity.

C) produces a differentiated product with high switching costs.

Question #168 of 200

Question ID: 434391

Preferred stock *most likely* has a:

A) variable dividend and no maturity.

B) fixed dividend and maturity.

C) fixed dividend and no maturity.

Question #169 of 200

Question ID: 415347

What value would be placed on a stock that currently pays no dividend but is expected to start paying a $1 dividend five years from now? Once the stock starts paying dividends, the dividend is expected to grow at a 5 percent annual rate. The appropriate discount rate is 12 percent.

A) $14.29.

B) $9.08.

C) $8.11.

Question #170 of 200

Question ID: 415385

Of the following types of firm, which is *most suitable* for P/B ratio analysis?

A) A service industry firm without significant fixed assets.

B) A firm with accounting standards consistent to other firms.

C) A firm with accounting standards different from other firms.

Question #171 of 200

Question ID: 415313

An analyst estimates that a stock's value is 22.50. If the market price of this stock is 25.00 the analyst believes the stock is:

A) fairly valued.

B) overvalued.

C) undervalued.

Question #172 of 200

Question ID: 415286

A firm's earnings are *most likely* to be cyclical if:

A) most of the firm's costs depend on its level of output.

B) the firm produces luxury items.

C) the firm operates in a growth industry.

Question #173 of 200

Question ID: 415305

In which of the following industries are technological factors *least likely* a significant influence?

A) Confections.

B) Pharmaceuticals.

C) Oil services.

Question #174 of 200

Question ID: 415400

A firm has an expected dividend payout ratio of 50 percent, a required rate of return of 18 percent, and an expected dividend growth rate of 3 percent. The firm's price to earnings ratio (P/E) is:

A) 6.66.

B) 2.78.

C) 3.33.

Question #175 of 200

Question ID: 415380

The constant-growth dividend discount model would typically be most appropriate in valuing a stock of a:

A) new venture expected to retain all earnings for several years.

B) moderate growth, "mature" company.

C) rapidly growing company.

Question #176 of 200

Question ID: 415268

Other things equal, which of the following types of stock has the *most* risk from the investor's perspective?

A) Putable common share.

B) Callable common share.

C) Callable preferred share.

Question #177 of 200

Question ID: 415392

The earnings multiplier model, derived from the dividend discount model, expresses a stock's P/E ratio (P_0/E_1) as the :

A) expected dividend in one year divided by the difference between the required return on equity and the expected dividend growth rate.

B) expected dividend payout ratio divided by the sum of the expected dividend growth rate and the required return on equity.

C) expected dividend payout ratio divided by the difference between the required return on equity and the expected dividend growth rate.

Question #178 of 200

Question ID: 434398

Which valuation method is *most appropriate* to estimate a floor value for a firm being liquidated?

A) Asset-based.

B) Price/earnings ratio.

C) Discounted cash flow.

Question #179 of 200

Question ID: 415255

Participating preference shares *most likely*:

A) can be exchanged for common stock at a ratio determined at issuance.

B) receive extra dividends if firm profits exceed a predetermined threshold.

C) give the shareholder the right to sell the shares back to the firm at a specific price.

Question #180 of 200

Question ID: 415258

Cheryl Brower and Todd Sutter each own 100 shares of Hills Company stock. In a recent proxy vote, Brower had 100 votes but Sutter had 10 votes. The *most likely* reason for this difference in voting rights is that:

A) Hills Company uses a statutory voting method.

B) Brower and Sutter own different classes of stock.

C) Brower is a director of Hills Company.

Question #181 of 200

Question ID: 415416

A stock has a required rate of return of 15%, a constant growth rate of 10%, and a dividend payout ratio of 45%. The stock's price-earnings ratio should be:

A) 9.0 times.

B) 3.0 times.

C) 4.5 times.

Question #182 of 200

Question ID: 441028

Given the following information, compute the price/cash flow ratio for EAV Technology, a U.S. GAAP reporting firm.

- Net income per share = $6
- Price per share = $100
- Depreciation per share = $2
- Interest expense per share = $4
- Marginal tax rate = 25%

A) 9.1X.

B) 8.3X.

C) 12.5X.

Question #183 of 200

Question ID: 415299

Which of the following conditions is *most likely* to indicate that barriers to entry into an industry are low?

A) Market shares have been stable over the last two business cycles.

B) Investment capital is available at low cost.

C) The industry has significant economies of scale.

Question #184 of 200

Question ID: 415374

REM Corp.'s return on equity (ROE) is 19.5% and its dividend payout rate is 45%. What is the company's implied dividend growth rate?

A) 19.5%.

B) 8.78%.

C) 10.73%.

Question #185 of 200

Question ID: 434397

Because of dividend displacement of earnings, the net effect on firm value of increasing the dividend payout ratio is:

A) indeterminate.
B) to increase firm value.
C) to decrease firm value.

Question #186 of 200

Question ID: 415375

In its latest annual report, a company reported the following:

Net income	= $1,000,000
Total equity	= $5,000,000
Total assets	= $10,000,000
Dividend payout ratio	= 40%

Based on the sustainable growth model, the *most likely* forecast of the company's future earnings growth rate is:

A) 6%.
B) 8%.
C) 12%.

Question #187 of 200

Question ID: 415283

Auto manufacturers and home builders would *most likely* be grouped together in an industry classification system based on:

A) type of business activity.
B) dividend yields.
C) sensitivity to business cycles.

Question #188 of 200

Question ID: 434390

Holding all else equal, if the beta of a stock increases, the stock's price will:

A) increase.
B) decrease.
C) be unaffected.

Question #189 of 200

Question ID: 415409

All else equal, if a firm's return on equity (ROE) increases, the stock's value as estimated by the constant growth dividend discount model (DDM) will *most likely*:

A) increase.

B) decrease.

C) not change.

Question #190 of 200

Question ID: 415367

A company with a return on equity (ROE) of 27%, required return on equity (k_e) of 20%, and a dividend payout ratio of 40% has an implied sustainable growth rate *closest* to:

A) 10.80%.

B) 16.20%.

C) 12.00%.

Question #191 of 200

Question ID: 415253

An equity security that requires the firm to pay any scheduled dividends that have been missed, before paying any dividends to common equity holders, is a:

A) participating preference share.

B) cumulative preference share.

C) convertible preference share.

Question #192 of 200

Question ID: 415360

Bybee is expected to have a temporary supernormal growth period and then level off to a "normal," sustainable growth rate forever. The supernormal growth is expected to be 25 percent for 2 years, 20 percent for one year and then level off to a normal growth rate of 8 percent forever. The market requires a 14 percent return on the company and the company last paid a $2.00 dividend. What would the market be willing to pay for the stock today?

A) $52.68.

B) $47.09.

C) $67.50.

Question #193 of 200

Question ID: 415386

Which of the following is *least likely* a reason the price to cash flow (P/CF) model has grown in popularity?

A) CFs are more easily estimated than future dividends.

B) CFs are generally more difficult to manipulate than earnings.

C) CFs are used extensively in valuation models.

Question #194 of 200

Question ID: 415345

A firm will not pay dividends until four years from now. Starting in year four dividends will be $2.20 per share, the retention ratio will be 40%, and ROE will be 15%. If k = 10%, what should be the value of the stock?

A) $58.89.

B) $41.32.

C) $55.25.

Question #195 of 200

Question ID: 415422

An analyst studying Albion Industries determines that the average EV/EBITDA ratio for Albion's industry is 10. The analyst obtains the following information from Albion's financial statements:

> EBITDA = £11,000,000
> Market value of debt = £30,000,000
> Cash = £1,000,000

Based on the industry's average enterprise value multiple, what is the equity value of Albion Industries?

A) £81,000,000.

B) £110,000,000.

C) £80,000,000.

Question #196 of 200

Question ID: 415359

A firm is expected to have four years of growth with a retention ratio of 100%. Afterwards the firm's dividends are expected to grow 4% annually, and the dividend payout ratio will be set at 50%. If earnings per share (EPS) = $2.4 in year 5 and the required return on equity is 10%, what is the stock's value today?

A) $20.00.

B) $30.00.

C) $13.66.

Question #197 of 200

Question ID: 415331

Given the following estimated financial results for the next period, value the stock of FishnChips, Inc., using the infinite period dividend discount model (DDM).

- Sales of $1,000,000.
- Earnings of $150,000.
- Total assets of $800,000.
- Equity of $400,000.
- Dividend payout ratio of 60.0%.
- Average shares outstanding of 75,000.
- Real risk free interest rate of 4.0%.
- Expected inflation rate of 3.0%.
- Expected market return of 13.0%.
- Stock Beta at 2.1.

The per share value of FishnChips stock is approximately: *(Note: Carry calculations out to at least 3 decimal places.)*

A) $30.89.

B) $17.91.

C) $26.86.

Question #198 of 200

Question ID: 415315

An equity valuation model that values a firm based on the market value of its outstanding debt and equity securities, relative to a firm fundamental, is a(n):

A) enterprise value model.

B) market multiple model.

C) asset-based model.

Question #199 of 200

Question ID: 415291

For relative valuation, a peer group is *best* described as companies:

A) with similar business activities and competitive factors.

B) in a similar sector or industry classification.

C) at a similar stage of the industry life cycle.

Question #200 of 200

Question ID: 415323

Calculate the value of a preferred stock that pays an annual dividend of $5.50 if the current market yield on AAA rated preferred stock is 75 basis points above the current T-Bond rate of 7%.

A) $78.57.

B) $70.97.

C) $42.63.