Assignment: Week 3 Homework

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Questions | Problem 7-10 | Question 1 of 2

1.
2.

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Problem 7-10

Preferred Stock Rate of Return

What is the required rate of return on a preferred stock with a $50 par value, a stated annual dividend of 9% of par, and a current market price of (a) $60, (b) $78, (c) $96, and (d) $134 (assume the market is in equilibrium with the required return equal to the expected return)? Round the answers to two decimal places.

a. ____ %

b. ____ %

c. ____ %

d. ____ %

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Assignment: Week 3 Homework

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Questions

1.

2.

Problem 7-14

Question 2 of 2

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Problem 7-14

Preferred Stock Valuation

Several years ago, Rolen Riders issued preferred stock with a stated annual dividend of 11% of its $100 par value. Preferred stock of this type currently yields 7%. Assume dividends are paid annually.

a. What is the estimated value of Rolen's preferred stock? Round your answer to the nearest cent.

$

b. Suppose interest rate levels have risen to the point where the preferred stock now yields 12%. What would be the new estimated value of Rolen's preferred stock? Round your answer to the nearest cent.

$

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Problem 7-14

Question 2 of 2

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