

- (7-2) Two investors are evaluating General Electric's stock for possible purchase. They agree on the expected value of D_1 and also on the expected future dividend growth rate. Further, they agree on the risk of the stock. However, one investor normally holds stocks for 2 years and the other normally holds stocks for 10 years. On the basis of the type of analysis done in this chapter, they should both be willing to pay the same price for General Electric's stock. True or false? Explain.
- (7-3) A bond that pays interest forever and has no maturity date is a perpetual bond, also called a perpetuity or a consol. In what respect is a perpetual bond similar to (1) a no-growth common stock and (2) a share of preferred stock?
- (7-4) Explain how to use the corporate valuation model to find the price per share of common equity.

(7-4) Nick's Enchiladas Incorporated has preferred stock outstanding that pays a dividend of \$5 at the end of each year. The preferred sells for \$50 a share. What is the stock's required rate of return (assume the market is in equilibrium with the required return equal to the expected return)?

(7-5) A company currently pays a dividend of \$2 per share ($D_0 = \2). It is estimated that the

required return equal to the expected return). What is your forecast of g ?

- (7-9) Growth valuation
Crisp Cookware's common stock is expected to pay a dividend of \$3 a share at the end of this year ($D_1 = \$3.00$); its beta is 0.8; the risk-free rate is 5.2%; and the market risk premium is 6%. The dividend is expected to grow at some constant rate g , and the stock currently sells for \$40 a share. Assuming the market is in equilibrium, what does the market believe will be the stock's price at the end of 3 years (i.e., what is \hat{P}_3)?