EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Equity Investments

Q: 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?

CORRECT ANSWER:

Ⓒ **\$28.57**

Again we just need to use the most important formula for the CFA Level 1
P0= d1 / (k – g)
d1 = \$2.00
g = 5% (the constant growth rate)
k = 12% (the required return rate)

P0 = 2 / (0.12 – 0.05) = 2 / 0.07 = \$28.57

CFA Society Hong Kong Candidate Services

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