EASY   INTERMEDIATE   HARD

CFA® SAMPLE QUESTION – LEVEL I

Equity Investments

Q: Stock XYZ has the following characteristics:

Current dividend	$2.50 per share
Expected dividend in 1 year	$3.00 per share
Long-term growth rate of dividends	10%
Required rate of return	13%

Using the infinite period Dividend Discount Model, what is the maximum price that you would pay for Stock XYZ in an efficient market?

CORRECT ANSWER:

ⓑ **$100.00**

Just remember the Infinite Period Dividend Discount Model Formula:
Price = (Dividend for Period 1)/ (k-g)
Where k is the required rate of return and g is the Long-term growth rate
Thus, Price = (3)/(0.13-0.10) =$100 per share

CFA Society Hong Kong
Candidate Services

Mr. Zap Cheng, CFA
Candidate Services
Committee

Date of issue:
1 Jan 2024