

# 17 Lecture - MGT201

## Important Mcqs

1. **The common stock pricing and dividend growth model is used to estimate the fair value of a stock based on:**
- a) Its historical dividend payments
  - b) Its expected future dividend payments
  - c) Its stock price at a given point in time
  - d) Its industry average P/E ratio

**Answer: b) Its expected future dividend payments**

2. **According to the dividend growth model, the value of a stock is equal to:**
- a) Its current stock price
  - b) The sum of its historical dividend payments
  - c) The sum of its expected future dividend payments
  - d) Its book value

**Answer: c) The sum of its expected future dividend payments**

3. **The discount rate used in the dividend growth model is typically:**
- a) The risk-free rate of return
  - b) The company's cost of equity
  - c) The industry average P/E ratio
  - d) The company's debt-to-equity ratio

**Answer: b) The company's cost of equity**

4. **If a company's dividend growth rate is expected to be 5% per year and its current annual dividend is \$2 per share, what is the expected dividend per share in 5 years?**
- a) \$2.63
  - b) \$2.78
  - c) \$3.10
  - d) \$3.24

**Answer: c) \$3.10**

5. **The dividend growth model assumes that the company's dividend growth rate will:**
- a) Increase over time
  - b) Remain constant over time
  - c) Decrease over time
  - d) Fluctuate randomly over time

**Answer: b) Remain constant over time**

6. **The dividend growth model can be used to estimate the fair value of:**

- a) Growth stocks
- b) Value stocks
- c) Income stocks
- d) All of the above

**Answer: c) Income stocks**

7. **If a company has a current stock price of \$50 and an expected annual dividend of \$2 per share, what is the expected dividend yield?**

- a) 2%
- b) 4%
- c) 5%
- d) 10%

**Answer: b) 4%**

8. **The dividend growth model assumes that investors require a higher return on their investment as:**

- a) The dividend growth rate increases
- b) The dividend growth rate decreases
- c) The discount rate increases
- d) The discount rate decreases

**Answer: c) The discount rate increases**

9. **If a company's cost of equity is 10% and its expected dividend growth rate is 5%, what is the expected dividend yield?**

- a) 5%
- b) 10%
- c) 15%
- d) 20%

**Answer: a) 5%**

10. **The dividend growth model assumes that a company's future dividend payments are:**

- a) Guaranteed to occur
- b) Not guaranteed to occur
- c) Guaranteed to increase over time
- d) Not guaranteed to increase over time

**Answer: b) Not guaranteed to occur**