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