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