

# 17 Lecture - MGT201

## Important Subjective

1. **What is the dividend growth model?**

Answer: The dividend growth model is a method used to estimate the fair value of a stock based on its expected future dividend payments, which are discounted to their present value using an appropriate discount rate.

2. **What is the formula for the dividend growth model?**

Answer: The formula for the dividend growth model is  $V_0 = D_1 / (k_e - g)$ , where  $V_0$  is the current value of the stock,  $D_1$  is the expected dividend payment one year from now,  $k_e$  is the company's cost of equity, and  $g$  is the expected dividend growth rate.

3. **How does the dividend growth model help investors evaluate stocks?**

Answer: The dividend growth model helps investors evaluate stocks by estimating their fair value based on the expected future cash flows from dividend payments.

4. **What are the limitations of the dividend growth model?**

Answer: The limitations of the dividend growth model include its reliance on assumptions about the stability of dividend growth rates and the discount rate used, and its inability to account for non-dividend cash flows.

5. **What is the relationship between a company's dividend yield and its stock price?**

Answer: The dividend yield and stock price have an inverse relationship, meaning that as the stock price increases, the dividend yield decreases, and vice versa.

6. **How does a company's cost of equity impact its stock valuation using the dividend growth model?**

Answer: The cost of equity is used as the discount rate in the dividend growth model, so an increase in the cost of equity will result in a lower stock valuation, and vice versa.

7. **What is the difference between a constant growth and non-constant growth dividend model?**

Answer: A constant growth dividend model assumes a steady and predictable dividend growth rate, while a non-constant growth model allows for fluctuating dividend growth rates.

8. **How can a company's historical dividend payments be used in the dividend growth model?**

Answer: A company's historical dividend payments can provide insights into its past dividend growth rates and help investors make assumptions about its future dividend growth potential.

9. **How does the dividend growth model relate to the concept of intrinsic value?**

Answer: The dividend growth model is used to estimate the intrinsic value of a stock based on its expected future cash flows, which is the theoretical value of a stock that represents its true worth.

10. **What are the advantages of using the dividend growth model in stock valuation?**

Answer: The advantages of using the dividend growth model include its simplicity, transparency,

and ability to focus on a company's fundamental value drivers.