

18 Lecture - MGT201

Important Mcqs

- 1. What is the common stock - rate of return and EPS pricing model used for?**
 - A. To estimate the fair value of a stock
 - B. To calculate the company's net income
 - C. To measure the company's liquidity**Answer: A**
- 2. The EPS in the common stock - rate of return and EPS pricing model stands for:**
 - A. Earnings Per Stock
 - B. Expected Price Stability
 - C. Earnings Per Share**Answer: C**
- 3. The required rate of return in the common stock - rate of return and EPS pricing model represents:**
 - A. The investor's expected rate of return on the stock
 - B. The company's cost of equity
 - C. The company's net income**Answer: A**
- 4. The fair value of a stock in the common stock - rate of return and EPS pricing model is calculated by:**
 - A. Dividing the expected EPS by the required rate of return
 - B. Multiplying the expected EPS by the required rate of return
 - C. Subtracting the expected EPS from the required rate of return**Answer: A**
- 5. The expected growth rate in the common stock - rate of return and EPS pricing model represents:**
 - A. The expected rate of increase in the company's net income
 - B. The expected rate of increase in the company's stock price
 - C. The expected rate of increase in the company's dividends**Answer: A**
- 6. The common stock - rate of return and EPS pricing model assumes:**
 - A. A constant growth rate in EPS
 - B. A variable growth rate in EPS
 - C. No growth in EPS**Answer: A**
- 7. The EPS used in the common stock - rate of return and EPS pricing model should be:**
 - A. The expected EPS for the current year
 - B. The average EPS over the last five years
 - C. The projected EPS for the next five years**Answer: C**

8. **The required rate of return in the common stock - rate of return and EPS pricing model is influenced by:**
- A. Market conditions
 - B. The company's perceived risk
 - C. Both A and B

Answer: C

9. **What is the main limitation of the common stock - rate of return and EPS pricing model?**
- A. It assumes a constant growth rate in EPS
 - B. It does not consider the company's debt levels
 - C. It does not account for market fluctuations

Answer: A

10. **How can the common stock - rate of return and EPS pricing model be used in conjunction with other valuation methods?**
- A. To compare and verify the results of other valuation methods
 - B. To replace other valuation methods altogether
 - C. To use in isolation as the most reliable valuation method

Answer: A