

# 18 Lecture - MGT201

## Important Subjective

- 1. What is the common stock - rate of return and EPS pricing model?**  
Answer: The common stock - rate of return and EPS pricing model is a method used to estimate the fair value of a stock based on its expected earnings per share (EPS) and the investor's required rate of return.
- 2. What is EPS in the common stock - rate of return and EPS pricing model?**  
Answer: EPS stands for earnings per share, which is the company's net income divided by the number of outstanding shares of stock.
- 3. What is the required rate of return in the common stock - rate of return and EPS pricing model?**  
Answer: The required rate of return represents the investor's expected rate of return on the stock, which takes into account the risk associated with the investment.
- 4. How is the fair value of a stock calculated using the common stock - rate of return and EPS pricing model?**  
Answer: The fair value of a stock is calculated by dividing the expected EPS by the investor's required rate of return, adjusted for expected growth in EPS.
- 5. What does the expected growth rate represent in the common stock - rate of return and EPS pricing model?**  
Answer: The expected growth rate represents the expected rate of increase in the company's earnings per share over time.
- 6. Does the common stock - rate of return and EPS pricing model assume a constant or variable growth rate in EPS?**  
Answer: The model assumes a constant growth rate in EPS.
- 7. How is the EPS used in the common stock - rate of return and EPS pricing model determined?**  
Answer: The EPS used in the model is the projected EPS for the next five years.
- 8. What factors influence the required rate of return in the common stock - rate of return and EPS pricing model?**  
Answer: The required rate of return is influenced by market conditions and the perceived risk associated with the investment.
- 9. What is the main limitation of the common stock - rate of return and EPS pricing model?**  
Answer: The main limitation is that it assumes a constant growth rate in EPS, which may not reflect the actual growth rate of the company.
- 10. Can the common stock - rate of return and EPS pricing model be used in conjunction with other valuation methods?**  
Answer: Yes, the model can be used in conjunction with other valuation methods to compare and verify the results.