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.