

38 Lecture - MGT201

Important Subjective

- 1. What is the residual dividend model, and how is it different from other dividend models?**
Answer: The residual dividend model is a dividend payment approach that involves distributing only the remaining profits as dividends after the company has met its investment needs. It differs from other models, such as the stable dividend model, which pays a fixed dividend amount regardless of earnings.
- 2. What are the advantages of using the residual dividend model for dividend payments?**
Answer: The residual dividend model ensures that the company retains sufficient funds for future growth while rewarding shareholders with surplus profits. It also provides a flexible framework for dividend distribution that can accommodate changing circumstances.
- 3. How does the residual dividend model prioritize future growth?**
Answer: The residual dividend model prioritizes future growth by ensuring that the company retains sufficient funds for investment in projects with positive net present value before paying dividends to shareholders.
- 4. What type of companies are best suited for the residual dividend model?**
Answer: Companies with fluctuating earnings or those in high-growth industries are best suited for the residual dividend model.
- 5. What are the key steps involved in implementing the residual dividend model?**
Answer: The key steps involved in implementing the residual dividend model include identifying the company's investment needs, determining the surplus profits after investment needs are met, and distributing the remaining profits as dividends to shareholders.
- 6. What are some of the disadvantages of using the residual dividend model for dividend payments?**
Answer: One of the disadvantages of the residual dividend model is that it may result in inconsistent dividend payments. It may also be difficult to predict the surplus profits accurately, which can lead to uncertainty for shareholders.
- 7. What is the role of net present value (NPV) in the residual dividend model?**
Answer: The residual dividend model is based on the principle of investing in projects with positive net present value. NPV is used to evaluate the profitability of investment projects and determine whether they meet the company's investment needs.
- 8. What are the potential risks of using the residual dividend model for dividend payments?**
Answer: One of the potential risks of using the residual dividend model is that it may lead to underinvestment in the company's future growth if surplus profits are consistently low. It may also result in a decrease in the company's stock price if shareholders perceive inconsistent dividend payments as a negative signal.
- 9. How can a company balance dividend payments and future growth under the residual dividend model?**
Answer: A company can balance dividend payments and future growth under the residual

dividend model by adjusting the investment criteria for new projects, which can increase or decrease the amount of surplus profits available for dividend distribution.

10. **How does the residual dividend model align with shareholder interests?**

Answer: The residual dividend model aligns with shareholder interests by prioritizing the retention of funds for future growth, which can lead to increased shareholder value in the long run. It also rewards shareholders with surplus profits through dividend payments.