**Problem 1**

Suppose a dividend of $1.25 was paid. The stock has a required rate of return of 11.2% and investors expect the dividend to grow at a constant rate of 10%. Complete parts (a) through (e) below.

1. Compute D0, D1, D2, D3 and D7.
2. Compute the present value of the dividends for t = 3 years.
3. Compute the current market price.
4. Assume that the constant growth rate is actually 0%. What is the current market price?
5. Describe the behavior of the present value of each future dividend (i.e. the behavior as t increases).

**Problem 2**

Suppose a dividend that pays at $1.07 has a growth rate of 20% for the first 3 years. After the 3 years, there is a long-run growth rate of 8%. The stock has a required rate of return of 12.4%. Find the current market price of a share of common stock.

**Problem 3**

Assume the beta coefficient for a company’s stock is β= 0.2, the risk-free rate of return, rRF, is 8% and the required rate of return on the market, rM, is 14%. Assume the dividend expected during the coming year is D1 = $2.50 and the growth rate is a constant 7%. Complete parts (a) through (c) below.

1. Compute the price at which the company’s stock should sell.
2. Find the new price of the stock assuming the risk-free rate of return is 5% and the required rate of return on the market is 11%.
3. What would be needed for a stock to be in equilibrium?