Projected capital budget is $1,000,000, target capital structure is 30% debt, 20% preferred stock and 50% equity, and forecasted net income is $400,000. Please show calculations.

1. If the company follows a residual dividend policy, how much dividends will it pay?
2. How many shares must it sell, if it requires external equity and it can issue new stocks at $20 per share?
3. What is the main disadvantage of having a residual dividend policy?
4. Are high dividends always preferred to low dividends? Explain.