**Sample Exam problems July 09.**

1. How much do you have to invest today at an annual rate of 8%, if you need to have $5,000 six years from today?

2. Bavarian Sausage, Inc. has preferred stock outstanding. This stock pays a semiannual dividend of $1.25. If the next dividend is paid six months from now and the annual required return is 10%, what should be the value of the preferred stock?

3. A share of preferred stock pays a $2 annual dividend, but pays the dividend in four equal quarterly installments. Investors seek a 12% annual percentage return on the investment. What price should the preferred stock trade?

4. Security I has a beta of 1.3, the risk-free rate is 4%, and the expected market risk premium is 11%. What is the expected return for Security I?

5. As a result of a company’s 15% increase in sales their EBIT increased by 25%. What is the company’s operating leverage?