1. Stock valuation: universal lever, Inc. just paid dividend of $2.75 on its stock. The growth rate in dividend is expected to be a constant 6 percent per year, indefinitely. Investors require a 16 percent return on the stock for the first three years, a 14 percent return for the next three years, and then an 11 percent return there after. What is the current share price for the stock?
2. Dividend growth: Four years ago, Bling diamond, Inc., paid a dividend of $1.20 per share. Bling paid a dividend of $1.93 per share yesterday. Dividends will grow over the next five years at the same rate they grew over the last four years. There after, dividends will grow at 7 percent per year. What will Bling diamond’s cash be in 7 years?
3. Using CAPM: A stock has an expecting return of 16.2 percent, a beta of 1.75, and the expected return on the market is 11 percent. What must the risk –free be?
4. Covariance and correlation: Based on the following information, calculate the expected return and standard deviation of each of the following stocks. Assume each state of the economy is equally likely to happen. What are the covariance and the correlation between the returns of the two stocks?

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| --- | --- | --- |
| State of economy  Bear  Normal  Bull | Return on stock A  .082  .095  .063 | Return on stock B  -.065  .124  .185 |

3.Using CAPM : A stock has an expecting return of 16.2 percent,a beta of 1.75, and the expected return on the market is 11 percent.What must the risk –free be?

**Answer: 4.07%**

CAPM:  16.2% = r(f) + 1.75 \* (11% - r(f))

r(f) = (16.2% - 1.75 \* 11% ) / (1 - 1.75) = 4.067%