

CFA® SAMPLE QUESTION - LEVEL I

Equity Investments

Q: Stock XYZ has the following characteristics:

Annual Dividend per Share	\$2.10
Risk free rate	7%
Risk Premium for this stock	4%

If the annual dividend is expected to be remained at \$2.10 forever. Then the value of this stock is closed to:

CORRECT ANSWER:

(b) \$30.00

This is a special case if the dividend can remain at \$2.10 per share forever.

We can make the valuation by using the formula $p = d/r$

r is the required rate of return

= risk free rate + risk premium of the instrument

= 7% + 4% = 11%

So the fair price = $2.10 / 11\% = \$19.09$ per share



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