

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



188

Date of issue:

Disclaimer: This material is produced by a voluntary study group leader. CFA Society Hong Kong makes no representations about the accuracy, reliability, completeness, or timeliness of this material. Use this material at your own risk.



CFA Society Hong Kong Candidate Services