



CFA® SAMPLE QUESTION - LEVEL I

Equity Investments

Q: Stock XYZ has the following characteristics:

Current dividend	\$2.50 per share
Expected dividend in 1 year	\$3.00 per share
Long-term growth rate of dividends	10%
Required rate of return	13%

Using the infinite period Dividend Discount Model, what is the maximum price that you would pay for Stock XYZ in an efficient market?

CORRECT ANSWER:

b \$100.00

Just remember the Infinite Period Dividend Discount Model Formula: Price = (Dividend for Period 1)/ (k-g) Where k is the required rate of return and g is the Long-term growth rate Thus, Price = (3)/(0.13-0.10) =\$100 per share



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