1. A stock has provided dividend = $2 during last year and next year's dividend is 10% higher, the price will be $40 at year-end, the risk-free rate is 5%, the market premium is 5%, and the stock's beta is 1.2.
   If the beta of the stock is increased to 1.5, its stock price will
   a. Increase.
   b. Remain unchanged.
   c. Decrease.

2. In a standard dividend discount model (DDM) which of the following factors is least likely to affect the required rate of return on the investment?
   a. Expected inflation rate.
   b. Risk-free rate of return.
   c. ROA.

3. The price to book value ratio (P/BV) is a helpful valuation technique when examining firms:
   a. That hold primarily liquid assets.
   b. With higher Return on Equity
   c. With similar profitability margins

4. Which of the following statements regarding a country risk premium is most accurate?
   a. Country risk arises from expected economic and political events.
   b. Exchange rate risk is relatively small and can be ignored.
   c. Firms in different countries assume significantly different financial risk.

5. Which of the following statements concerning security valuation is least accurate?
   a. An investor may determine the required rate of return for the dividend discount model (DDM) by adding a risk premium multiplied by beta and adding the product to the nominal risk-free rate.
   b. Business risk is a component of a country's risk premium.
   c. An investor can estimate the growth rate for the dividend discount model (DDM) by multiplying the firm's return on capital employed (ROCE) by the firm's dividend payout ratio.

6. Assume that at the end of the next year, Company A will pay a $2.00 dividend per share, an increase from the current dividend of $1.50 per share. After that, the dividend is expected to increase at a constant rate of 5%. If an investor requires a 12% return on the stock, what is the value of the stock?
   a. $28.57.
   b. $30.00.
   c. $31.78.

7. Assume a company's ROE is 10% and the required return on equity is 9%. Everything else remaining same, if there is a decrease in a firm's payout rate, a stock's value as estimated by the constant growth dividend discount model (DDM) will most likely:
   a. Decrease.
   b. Increase.
   c. Either increase or decrease.

8. Calculate the value of a preferred stock that pays an annual dividend of $5.50 if the current market yield on AAA rated preferred stock is 75 basis points above the current T-Bond rate of 7%.
   a. $42.63.
   b. $78.57.
   c. $70.97.

9. Assuming a firm does not currently have excessive debt, a decrease in leverage will most likely cause the firm's stock price to:
   a. Remain the same.
   b. Decrease.
   c. Increase.

10. Following data for XYZ, Inc is available:
    - Retention = 30%
    - ROE = 20%
    - k = 12%

    Using the infinite period, or constant growth, dividend discount model, what would be the value that a CFA analyst would get for the price of XYZs stock assuming that next years earnings will be $4.25.$5
    a. $58.30.
    b. $45.45.
    c. $83.3.

11. Use the following information to determine the value of Buckhill common stock:
    I. Expected dividend payout ratio is 45%.
    II. Expected dividend growth rate is 6.5%.
    III. Required return is 12.4%.
    IV. Expected earnings per share next year are $3.25.

    a. $30.12.
    b. $24.80.
    c. $27.25.

12. If a preferred stock that pays a $11.50 $10 dividend is trading at $88.46, $ 90 what is the market's required rate of return for this security?
    a. 9.00%.
    b. 11.11%.
    c. 7.69%.

13. A firm will not pay dividends until four years from now. Starting in year four dividends will be $2.20 per share, the retention ratio will be 40%, and ROE will be 15%. If k = 10%, what should be the value of the stock?
    a. $41.32.
    b. $55.25.
    c. $58.89.

14. Which of the following statements concerning security valuation is least accurate?
    a. Accounting methods will be constant across countries.
    b. If the return on new investments is higher than the return the firm is earning on its existing investments, the firm is considered a growth firm.
    c. The business risk component of a country's risk premium is a function of the variability of economic activity in the country and the average operating leverage used by firms in the country.

15. Value of a 15-year, 8.5% annual coupon bond callable in five years is at 95.6 (prices are stated as a percentage of par). A straight bond that is similar in all other aspects as the callable bond is priced at 100.0. Which of the following is closest to the value of the call option?
    a. 2.5.
    b. 4.4.
    c. 8.5.

16. Which of the following statement is least accurate for a Top Down equity analysis Approach?
    a. Most valuation models, after top down analysis, recommends the required returns on equity, rather than average industry returns.
    b. The goal of the top-down approach is to identify those companies in non-cyclical industries with the lowest p/e ratios.
    c. An industry's prospects within the global business environment are a major determinant of how well individual firms in the industry perform.

17. Which of the following 10-year fixed-coupon bonds has the least price volatility? All else equal, the bond with a coupon rate of:
    a. 6.00%.
    b. 5.00%.
    c. 8.00%.

18. A company currently has a required return on equity of 14% and an ROE of 12%. All else equal, if there is an increase in a firm's dividend payout ratio, the stock's value will most likely:
    a. Either increase or decrease.
    b. Decrease.
    c. Increase.

19. A 8% coupon bond with semi-annual coupon payments on a coupon payment date when the coupon has not been paid yet and the bond has a $1,000 par value. what is the bond's full price?
    a. $1,040
    b. $1,000
    c. $1,080

20. Which of the following statements is Most accurate when valuing a security? The:
    a. Required rate of return for the dividend discount model is influenced by inflation.
    b. Dividend discount model assumes that the required rate of return is lesser than the growth rate of the company's dividend.
    c. Real risk-free rate is the nominal risk-free rate times the expected inflation rate.