**Exercises Chapter 8**

1. Capello's Deli traditionally pays an annual dividend of $1.65 per share. The firm is projecting dividends of $1.80 and $2.05 over the next two years, respectively. After that, the company expects to pay a constant dividend of $2.25 a share. What is the maximum amount you are willing to pay for one share of this stock if your required return is 10 percent?
a. $19.87
b. $20.29
c. $21.93
d. $23.73
e. $24.12

2. Jon's Catering is growing at a very fast rate. As a result, the company expects to increase its dividend to $.45, $.95, $1.60, and $2.15 over the next four years, respectively. After that, the dividend is projected to increase by 6 percent annually. The last annual dividend the firm paid was $.30 a share. What is the current value of this stock if the required return is 17 percent?
a. $12.97
b. $13.13
c. $13.77
d. $14.28
e. $14.58

3. Last year, when the stock of Shipping Enterprises was selling for $48 a share the dividend yield was 4.5 percent. Today, the stock is selling for $46 a share. What is the current required return on this stock if the company maintains a constant dividend growth rate of 3 percent?
a. 9.13 percent
b. 4.17 percent
c. 1.50 percent
d. 7.70 percent
e. 7.84 percent

4. The Johnston Company will pay an annual dividend of $2.05 next year. The company has increased its dividend by 3.5 percent a year for the past twenty years and expects to continue doing so. What will a share of this stock be worth three years from now if the required return is 14 percent?
a. $20.21
b. $20.91
c. $21.65
d. $22.41
e. $22.79

1. Van Gogh Beach Properties just paid a dividend of €5.20 per share. The company will increase its dividend by 20 percent next year and will then reduce its dividend growth rate by 5 percentage points per year until it reaches the industry average of 5 percent dividend growth, after which the company will keep a constant growth rate, forever. If the required return on Van Gogh stock is 13 percent, what will a share of stock sell for today?