

## EC 247 Financial Instruments and Capital Markets

### Class Exercise 5

The Questions correspond to chapters 13 and 14 of the Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, 7<sup>th</sup> Edition, Pearson Prentice Hall, 2009.

#### Question 1

Huskie Motor's just paid an annual dividend of \$1.00 per share. Management has promised shareholders to increase dividends at a constant rate of 5%. If the required return is 12%, what is the current price per share?

#### Question 2

Gordon & Co.'s stock has just paid its annual dividend \$1.10 per share. Analysts believe that Gordon will maintain its historic dividend growth rate of 3%. If the required return is 8%, what is the expected price of the stock next year?

#### Question 3

Macro Systems just paid an annual dividend of \$0.32 per share. Its dividend is expected to double for the next four years ( $D_1$  through  $D_4$ ), after which it will grow at a more modest pace of 1% per year. If the required return is 13%, what is the current price?

#### Question 4

Analysts are projecting that CB Railways will have earnings per share of \$3.90. If the average industry PE ratio is about 25, what is the current price of CB Railways?

#### Question 5

Distinguish between conventional mortgage loans and insured mortgage loans.

#### Question 6

Describe how the mortgage pass-through works.

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