

FN 211
Take-home Quiz: Stock and Bond Valuation

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1. You buy a house for \$38,000. You agree to a 60 month loan with a monthly interest rate of 0.55%. What is your required monthly payment?
- A. \$634.24
 - B. \$745.29
 - C. \$605.5

2. Which of the following is an underlying assumption of the constant growth dividend discount model (DDM)?
- A. Dividends have a constant growth rate
 - B. The constant growth rate of dividends will continue for an infinite time period
 - C. A and B are both correct.

Use the following information to answer question 3. and 4.

Davenport Corporation's last dividend was \$2.70 and the directors expect to maintain the historic 3 percent annual rate of growth. You plan to purchase the stock today because you feel that the growth rate will increase to 5 percent for the next three years and the stock will then reach \$25 per share.

3. How much should you be willing to pay for the stock if you require a 17 percent return?
- A. \$16.97
 - B. \$22.16
 - C. \$21.32
4. How much should you be willing to pay for the stock if you feel that the 5 percent growth rate can be maintained indefinitely and you require a 17 percent return?
- A. \$19.28
 - B. \$21.32
 - C. \$23.63

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5. A stock selling at \$50 has a P/E multiple of 20 on the basis of the current year's earnings. An analyst estimates that next's earnings per share will be 10% higher and that the stock should be valued on a forward looking basis at the industry average P/E of 18. Based on the analyst's assessment, it is most likely that the stock is currently:
- A. overvalued.
 - B. fairly valued.
 - C. undervalued.
6. Which of the following bonds would be the most sensitive to changes in market interest rates?
- A. 4% coupon bond with a 2 year maturity
 - B. 8% coupon bond with a 10 year maturity
 - C. 4% coupon bond with a 10 year maturity
7. An 8 year corporate bond pays has a 7% coupon rate and par of \$1,000. What should be the bond's price if the required return is 6% and the bond pays interest semiannually?
- A. \$1,062.81
 - B. \$1,053.45
 - C. \$1,049.49
8. An 8 year annual payment 7% coupon Treasury bond has a price of \$1,075 and par of \$1,000. The bond's YTM must be
- A. 5.80%
 - B. 7.00%
 - C. 1.69%
9. An annual payment bond with a \$1,000 par has a 5% quoted coupon rate, a 6% promised ytm and 6 years to maturity. What is the bond's Macaulay Duration?
- A. 5.31 years
 - B. 4.76 years
 - C. 4.16 years
10. The Modified Duration for a 10-year, 12% semi-annual pay coupon bond with a yield to maturity of 10 percent and a Macaulay duration of 7.2 years is *closest to*:
- A. 6.55 years
 - B. 6.79 years
 - C. 6.86 years