Additional notes to Lecture 5

ธนาคารแห่งประเทศไทย

$$\boxed{P_0 = \frac{D_1}{k_e - g}}$$

I. When fed ↓r:

1) Return on bond ↓ → return on stock ↑ in relative term → Demand for stock ↑ → investor likely to accept lower required return on equity (k_e ↓) → P_0 ↑

2) ↓r means expansionary monetary policy → it likely to stimulate economy → firms will be more profitable → growth rate of dividend (g) is likely to ↑ → P_0 ↑

* impact of mp on stock price is one of key way which monetary policy affect economy *

II. GFC on the stock mk. ex subprime crisis in Aug 2007:

1) Downward revision of US growth prospect → dividen growth rate (g) ↓ → P_0 ↓

2) Uncertainty in US economy ↑ → credit risk ↑ → required return on investment in equity ↑ (k_e ↑) → P_0 ↓