Self-test Risk, Return and Valuation

1. A stock return has the following distribution,

 Product Demand Probability of Occurrence Return at Occurrence (%)

Weak 0.05 -40

Below Ave 0.15 - 10

Normal 0.50 9

Above Ave. 0.20 15

Strong 0.10 30

Calculate the expected return and standard deviation.

1. The XYZ Company’s dividend is expecting growth at 25% for the next 2 years then the growth will decline to a constant 6% there in after. If D0 = 1.60 and your required return (rs = 10%), what is the value of XYZ’s stock today? (ie How much would you pay for 1 share of stock?)