Solution to FIN 533 homework
Due November 5

1. $k = k_{rf} + (k_M - k_{rf})\beta = 4\% + (10\% - 4\%)1.0 = 10\%$

D_1=\$3.36, D_2=\$3.7632, D_3=\$4.2148 $P_3 = \dfrac{\$4.4255}{0.10 - 0.05} = \$88.5105$

CF0=0
C01=\$3.36
C02=\$3.7632 **I=10%**
C03=\$4.2148 + \$88.5105 **NPV=\$75.83**

or

$\$3.36(1.10)^{-1}$ = \$1.0071
$\$3.7632(1.10)^{-2}$ = 1.0791
$(\$4.2148 + 88.5105)(1.10)^{-3}$ = 21.5816
\$23.6678

2. **D_1=\$2.20, D_2=\$2.42, D_3=\$2.5410, D_4=\$2.6681, D_5=\$2.8015**

$P_5 = \dfrac{\$2.8575}{0.12 - 0.02} = \$28.5748$

CF0=0
C01=\$2.2000
C02=\$2.4200
C03=\$2.5410
C04=\$2.6681 **I=12%**
C05=\$2.8015 + \$28.5748 **NPV=\$25.20**