

- 1) Kellogg's (K) is currently selling for \$65 and paying \$1.96 in dividends. They have been growing their dividends at a constant rate of approximately 6%. If we require a 9% return on our investment, how much would we be willing to pay for Kellogg's?

- 2) Assume it is January 1, 2015. Kimberly Clark (KMB) is currently selling for \$112. Dividends for the 2015 are expected to be \$3.52 per share. We expect that dividends in 2016 will be \$3.60 and in 2017 they will be \$3.70. We will be selling the stock at the end of 2017 and Value Line expects the price to be \$145 per share at that time. Our required rate of return is 9%. Using the discounted cash flow stock valuation formula (Value of stock = present value of future dividends + present value of price of stock when you plan to sell), calculate the present value of the future cash flow from this stock. Should we buy the stock?

- 3) A 10%, 20-year bond has a par value of \$1,000 and a call price of \$1,025. It is callable in 5 years. The bond is currently selling for \$1,200. Calculate the current yield, yield-to-maturity, and yield-to-call of this bond.

- 4) An investor is in the 35% Federal tax bracket. He is considering a 5% municipal bond (Federal tax-free), versus an 8½% corporate bond (fully-taxable). Calculate the taxable equivalent yield for the municipal bond. Assuming both are high-quality bonds, which should he buy?

- 5) Using annual compounding, find the prices for the following corporate bonds:
 - a) 7%, 10-year bond priced to yield 9%
 - b) 9%, 10-year bond priced to yield 7%