HW - Chapter 9 - Dividend Policy - Q1

	Rs. in lakhs
Net Profit	30
Less: Preference dividend	12
Earning for equity shareholders	18
Earning per share	18/3 = Rs. 6.00

Price per share according to Gordon's Model is calculated as follows:

$P_0 = D_1 / (K_e - g)$ where $g = br$

Here, $E_1 = 6$, $K_e = 16\%$

(i)   When dividend pay-out is 25%, hence retention ratio (b) = 75%

$g = br = 0.2 \times 0.75 = 15\%$

$P_0 = 1.50 / (0.16 - 0.15) = Rs. 150$

(ii)   When dividend pay-out is 50%, hence retention ratio (b) = 50%

$G = br = 0.2 \times 0.50 = 10\%$

$P_0 = 3 / (0.16 - 0.1) = Rs. 50$

(iii)   When dividend pay-out is 100%, hence retention ratio (b) = 0%

$G = br = 0.2 \times 0 = 0\%$

$P_0 = 6 / (0.16 - 0) = Rs. 37.50$