

HW - Chapter 9 - Dividend Policy - Q3

(i) As per Walter's Model, Price per share is computed by using the following formula:

$$\begin{aligned} P_0 &= \{D + R / K_e (E-D)\} / K_e \\ &= 18 + (0.25 / 0.15) (60 - 18) / 0.15 \\ &= \text{Rs. } 586.67 \end{aligned}$$

(ii) As per Gordon's model, when $r > K_e$, optimum dividend payout ratio is 'Zero'.